
Daon Development
Corporation
Annual Report 1979

Five Year Financial Highlights

		1979	1978	1977	1976	1975
Operating Results	Total Revenue (in $000)	**533,708**	347,702	155,743	123,176	102,939
	Net Income (in $000)	**43,835**	16,720	10,551	7,772	6,694
	Earnings per Common Share (in $)	**2.28**	.90	.56	.39	.33
	Cash Flow (in $000)	**81,925**	35,814	23,855	15,259	13,755
	Cash Flow per Common Share (in $)	**4.40**	1.96	1.29	.79	.70
Financial Performance	Total Assets (in $000)	**1,222,364**	653,622	464,306	278,161	216,677
	Income Properties (in $000)	**445,013**	307,738	228,069	107,350	76,315
	Shareholders' Equity:					
	Historic Cost (in $000)	**124,084**	72,384	34,321	25,589	19,319
	Net Market Value (in $000)*	**315,739**	184,645	96,876	77,647**	N/A
	Net Market Value of Assets per Common Share (in $)*	**15.09**	8.68	5.16	4.06**	N/A
	Total Liabilities/Shareholders' Equity:					
	Historic Cost	**8.85×**	8.03×	12.53×	9.87×	10.22×
	Net Market Value*	**4.09×**	3.76×	5.08×	3.92×**	N/A
	Interest Coverage (expense basis)	**3.52×**	2.53×	2.74×	2.98×	3.06×
Common Share Data	Price (in $):					
	High	**20.75**	7.25	3.25	1.05	0.66
	Low	**5.38**	2.94	0.88	0.61	0.38
	Trading Volume:					
	Number of Shares (in 000's)	**5,285**	1,603	642	548	397
	Dollar Value (in $000)	**70,270**	17,407	7,323	4,416	3,495
	Dividends Paid (in $)	**0.14**	0.0575	0.0325	—	0.020
	Number of Shareholders at October 31	**2,571**	1,534	1,012	1,065	1,178

*After allowance for income taxes at 50%.

**Based upon independent appraisals as at January 31, 1977.

All per share data adjusted for stock splits.

Contents

President's Report

Nineteen seventy-nine was the most successful year in the Company's 15-year history, with substantial growth in earnings, cash flow, income properties, total assets and, most significantly, net market value of assets. By year-end, the Company had also built up substantial cash reserves and achieved a stronger capital base from which to deal with the unsettled economic climate facing us as we enter the 1980's.

The Company's growth in the United States sun belt and along the west coast continued throughout the year, with the result that we now have more employees in the United States than in Canada. We also continued to expand our operations in western Canada, especially in Alberta whose energy-based economy is one of the most vibrant in North America.

Total revenue increased by 53%, earnings per share by 153%, cash flow per share by 124% and total assets by 87% from 1978, as indicated in the five-year financial highlights on the inside front cover. Shareholders' equity, through retention of earnings and increase in paid-up capital, rose by 71% and now stands at $124 million on the basis of historic cost.

Market Value of Assets

We continue to stress the importance of market value of assets rather than book value when determining the Company's worth or measuring the investment and operating performance of management.

As in previous years, an independent valuation by qualified real estate appraisers of all Daon's interests in real estate was completed as at October 31, 1979. Based on these appraisals and the quoted value of listed securities, the total market value of Daon's holdings exceeds book value by $383 million at fiscal year-end. After allowing for taxes at 50% on the excess, shareholders' equity at market value increased during the year to $316 million.

During 1979, Daon's excess of market value over book value of assets increased by almost $160 million while pre-tax income totalled approximately $80 million. Thus it is apparent that the Company recorded in realized net income only one-third of its investment and operating performance for the year.

On a common share basis, the net market value of assets after taxes increased by 74% over the past year from $8.68 to $15.09 per share at October 31, 1979. This growth compares with the 68% increase achieved during 1978.

Corporate Growth and Organization

While it is Daon's style to look to the future rather than the past, we thought it might be both interesting and useful to reflect on the Company's performance during its 15-year history.

The principal reason for our growth to date has been the ability to respond to changing market conditions and to take advantage of opportunities when and where they arise. We have tried to avoid becoming permanently wedded to any one market or product line, never losing sight of the fact that we provide a basic necessity of life, namely shelter. We have grown by moving selectively into larger projects and by expanding geographically. We have succeeded in maintaining a lean but highly-motivated management team and have avoided becoming a labour-intensive organization.

Over the past five years alone our assets have grown to $1.2 billion from $189 million, total revenue has grown to $534 million from $65 million and net income to $44 million from $3 million. More recently, we became increasingly conscious of the challenge the Company would face in adapting the organization to handle this type of growth in the future. It was apparent that business was becoming more complex and that the organizational structure would need to change to cope with the increasing level of activity. More sophisticated financial controls would be required and additional professional management would be needed to provide support services to the entrepreneurial developers in the organization. We, therefore, embarked on a program to add more depth and breadth to the organization, particularly at the corporate level, and I am happy to say that this has been achieved.

Daon has historically structured its development activities along regional or geographic lines. Just over a year ago, we made the first departure from this approach by moving to a functional operating style for our shopping centre and property management activities. Recently, we took a further step in this direction by functionalizing our office, industrial, residential and land development activities.

This new structure will allow product specialists to concentrate on their particular real estate expertise and should further improve our competitive performance.

Business Strategy

Over the past two years, we have seen the results of careful long-range cash planning aimed at providing the Company with substantial cash reserves while also expanding its real estate asset base. The objective was to achieve a position whereby we could take advantage of those excellent buying opportunities which would undoubtedly arise during a market downturn—a position which would also provide a healthy buffer against periods of reduced sales activity or tight and expensive money. All indicators were that these conditions would arise as a result of governments' determination to attack increasing inflation in the North American economy. I would draw your attention, therefore, to the substantial level of liquid resources accumulated over the year, as outlined in the financial statements. In addition Daon's operating bank lines, available but unutilized, were over $60 million.

Daon continues to concentrate and balance its resources on three complementary segments of business, namely land for development—a source of cash; condominium homes for sale—a source of cash; and income properties for investment—a place to invest our cash and provide shelter from current income taxes.

Our income property activities continue to increase, not only in total assets but in terms of quality, size and diversification of project, both geographically and by project type. The Company's objective is to continue to increase the proportion of assets invested in income properties with the greatest appreciation potential. Daon has development capacity and opportunities in excess of its financial capacity to retain all properties developed within its own portfolio. Consequently, we selectively sell certain properties to other investors when, in our judgement, we feel we can more profitably invest the proceeds in alternative opportunities.

Dividends

The Company's policy, adopted in 1977, is to pay out a minimum of 10% of prior year's net earnings in the form of common share dividends. In accordance with this policy, quarterly dividends of 2¢, 3¢, 4¢ and 5¢, respectively, were paid in 1979. On December 13, 1979, the Board of Directors approved a quarterly cash dividend of 5¢ per share

payable January 25, to all common shareholders of record at January 10, 1980. The Board also recommended that, subject to shareholder approval at the 1980 Annual General Meeting, common shareholders be given the option of receiving dividends payable after January 25, 1980, in the form of common stock in lieu of cash. This will give shareholders increased flexibility as to timing and form of taxation applicable to the growing dividends on Daon common shares.

Share Purchase Program

The Company has a policy of directing approximately 10% of prior year's net earnings to the purchase of Daon common shares on the open market. These purchases take place only during those periods between the release of a quarterly or annual report and the end of the quarter in which the report is released. During the past year, 113,320 shares were purchased at an average cost of $14.96 per share. It should be noted that these purchases represent less than 1 percent of the common shares outstanding and approximately 2 percent of the total Daon common shares traded during fiscal 1979.

Stock Splits

On February 23, 1979, the Company's common shares were subdivided two-for-one. The Directors have recommended a further two-for-one split, subject to shareholder approval at the 1980 Annual General Meeting. If approved, common shares should begin trading on the split basis on February 11, 1980. By increasing the number of shares outstanding, the liquidity of the Company's stock has continued to improve. During fiscal 1979, 5,285,000 shares of the Company's common stock traded on the four Canadian stock exchanges on which Daon shares are listed.

Outlook for 1980

While it will be a difficult task to emulate the records set in 1979, we look forward to 1980 with optimism. We have diverse inventories of excellent product in economically sound areas of the continent, we have substantial cash reserves and we have the confidence of our lenders—all these factors should contribute to an outstanding 1980.

On Behalf of the Board,
J. W. Poole,
President and
Chief Executive Officer.

December 13, 1979.

Office Buildings

Largest of several office structures that the Company had under construction in 1979, this 38-storey building at 444 Market Street, in downtown San Francisco, will be completed early in 1980.

The Company develops and acquires office buildings for retention in its income property portfolio and in some cases for sale to other investors.

At October 31st, 1979, Daon had under development 1,402,000 square feet of office space, excluding partners' interests. In addition the Company owns 1,395,000 net square feet of completed space in Alberta, British Columbia, Ontario and California.

During 1979, Daon completed three office developments totalling 320,000 square feet in California, including Daon Centre, the Company's U.S. corporate headquarters in Newport Beach. This two-building complex, 148,000 square feet of prime space, was substantially leased prior to completion and was sold during the year.

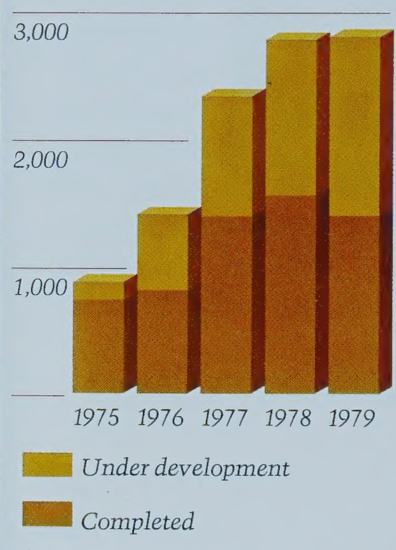
The largest of the office projects ever undertaken by Daon is 444 Market Street, a 38-storey tower under construction in the heart of downtown San Francisco. Already fully leased, this joint venture project with The Cadillac Fairview Corporation Limited, will be completed in March, 1980. Also underway and scheduled for completion in 1981 are Chevron Plaza, a 24-storey building in downtown Calgary, and a 19-storey tower in downtown Seattle.

Daon's new corporate headquarters is a 19-storey golden glass tower on a choice site overlooking the harbour in downtown Vancouver. With completion six months away, the building was more than 70 per cent committed to occupancy.

Office Buildings

Rentable Space

(in 000's square feet)



All data presented above is net of joint venture interests.

Office Buildings

Largest of several office structures that the Company had under construction in 1979, this 38-storey building at 444 Market Street, in downtown San Francisco, will be completed early in 1980.

➔ 444 Market Street, San Francisco, California.

↑ Chevron Plaza (under construction) and the Daon Building, Calgary, Alberta.

Office Buildings

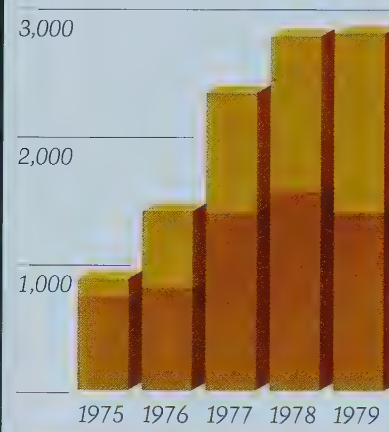
Paradise Point Executive Center, Marin County, California.

Battery & Sacramento Site, San Francisco, California.

Burrard & Hastings, Vancouver, British Columbia.

Rentable Space

(in 000's square feet)



Under development

Completed

All data presented above is net of joint venture interests.

Office Buildings

Largest of several office structures that the Company had under construction in 1979, this 38-storey building at 444 Market Street, in downtown San Francisco, will be completed early in 1980.

Daon Centre, Newport Beach, California.

Brinderson, Orange County, California.

Eighth & Olive, Seattle, Washington.

Office Buildings

Major Properties

Name	Location	Year(s) of Completion of Development	Rentable Area (Sq. ft.)
Alberta			
CHEVRON PLAZA*	Calgary	1981	267,000
DAON BUILDING	Calgary	1975	167,000
McLEAN BLOCK	Edmonton	1979	25,000
SEVENTH STREET PLAZA	Edmonton	1978	329,000
British Columbia			
BURRARD & HASTINGS	Vancouver	1980	203,000
1050 WEST PENDER	Vancouver	1975	247,000
TSAWWASSEN PROFESSIONAL BUILDING**	Delta	1980	45,000
California			
444 MARKET STREET**	San Francisco	1980	589,000
HERITAGE PARK	Alameda County	1980	100,000
PACIFIC I**	San Francisco	1978	175,000
PACIFIC II**	San Francisco	1981	213,000
PARADISE POINT EXECUTIVE CENTER	Marin County	1980	59,000
SENATOR BUILDING	Sacramento	1981	221,000
WALNUT CREEK PLAZA***	Contra Costa County	1978/79	155,000
Ontario			
TORONTO PROFESSIONAL BUILDINGS	Toronto	Acquired in 1977	401,000
Washington			
EIGHTH & OLIVE	Seattle	1981	262,000

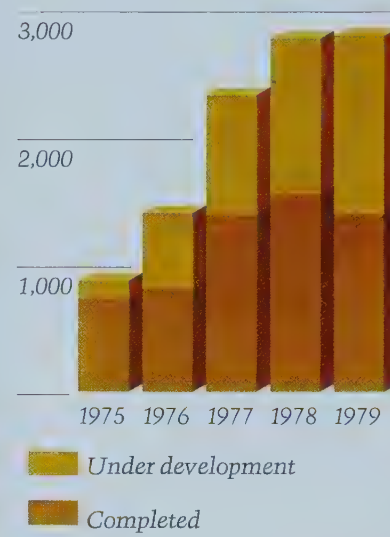
*The Company has agreed to sell a 50% interest in this property to the major tenant subject to conditions which at December 13, 1979 had not been finalized.

**50% interest.

***75% interest.

Rentable Space

(in 000's square feet)



All data presented above is net of joint venture interests.

Shopping Centres

Daon's move into regional shopping centre development during 1979 began with Coquitlam Centre, one of western Canada's largest shopping centres.

While the Company has been developing shopping centres since 1974, its operations in this field have gained momentum and visibility over the past two years by advancing from neighbourhood and community size centres to a number of full-scale regional malls.

Daon's shopping centre portfolio is geographically diverse, with ten centres in nine western Canadian cities and four smaller centres in southern California.

The opening of the Coquitlam Centre, in August, 1979, signalled Daon's entry into the regional shopping centre development field. Anchored by three major department stores, this successful centre, in which the Company holds a 50 percent interest is located in Coquitlam, a region of substantial population growth, 15 miles east of downtown Vancouver.

During 1979, Daon embarked on the development of four other regional centres. Three are in the "energy" province of Alberta. Wholly-owned projects are underway in Edmonton and Calgary and the Company holds a 75 per cent interest in a centre on which construction will soon start in Red Deer. A fourth, now under construction in North Bay, Ontario, is 50 per cent owned by Daon.

These four centres, including Phase II at North Bay for which development application has been filed with regulatory bodies, will produce 1,955,000 net square feet of shopping centre space, almost tripling Daon's current holdings of 1,053,000 net square feet.

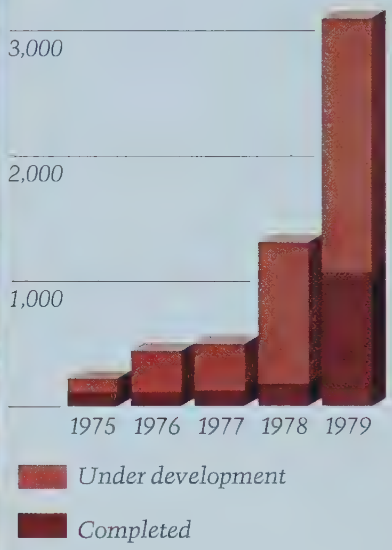
The Company considers a well-located shopping centre to be the most inflation proof real estate asset available because it is a self-indexing income property. Rents are usually predicated on a percentage of sales, with the result that the Company's revenue from these assets rises with inflation.

While in the immediate future Daon expects to confine its shopping centre development activity mainly to Canada, the Company will respond to opportunities anywhere in North America provided financeable lease agreements can be concluded with major department stores. Shopping centres will be an area of special emphasis for the Company over the next several years.

Shopping Centres

Rentable Space

(in 000's square feet)



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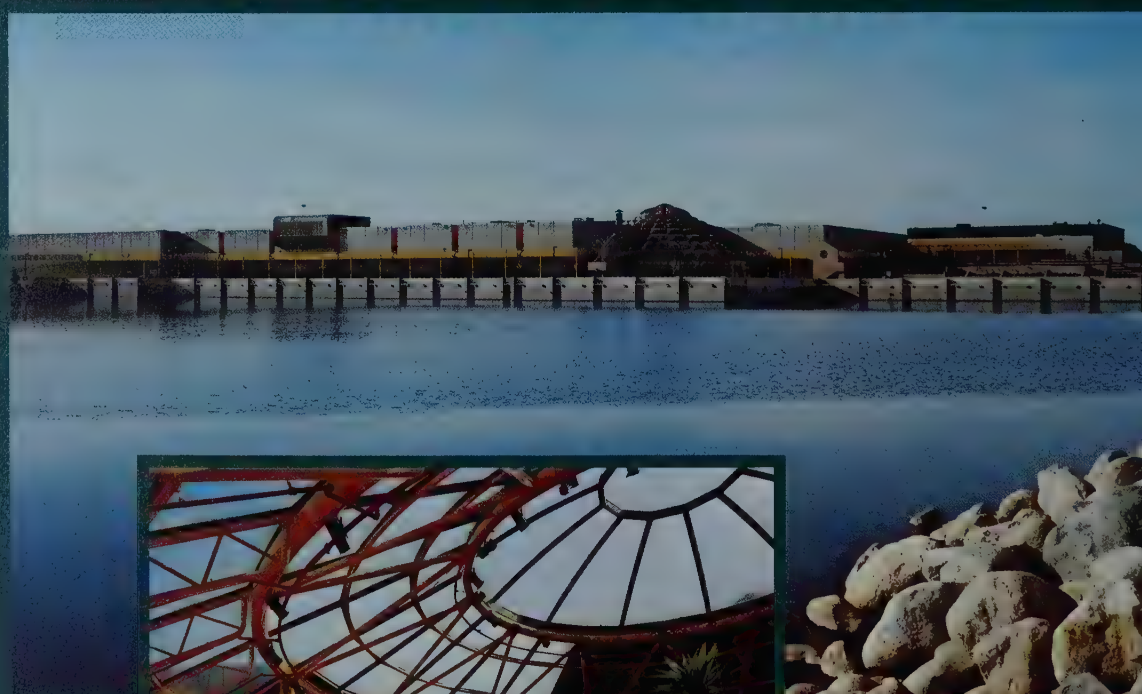
Shopping Centres

Daon's move into regional shopping centre development during 1979 began with Coquitlam Centre, one of western Canada's largest shopping centres.

Wetaskiwin Mall, Wetaskiwin, Alberta.



Castle Downs Town Square, Edmonton, Alberta.

Shopping Centres

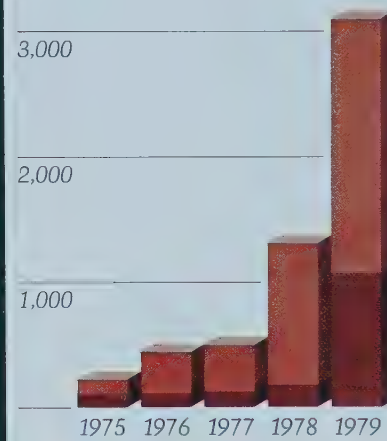
Agoura Town Center, Los Angeles County.

Coquitlam Centre, Coquitlam, British Columbia.

Waneta Plaza, Trail, British Columbia.

Rentable Space

(in 000's square feet)



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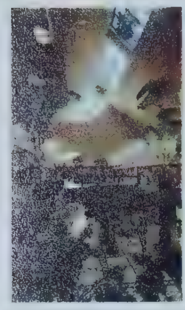
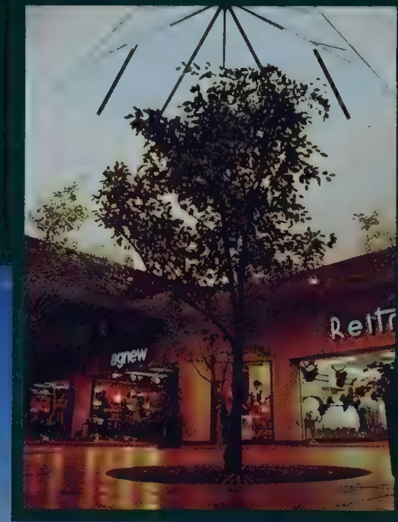
Shopping Centres



Daon's move into regional shopping centre development during 1979 began with Coquitlam Centre, one of western Canada's largest shopping centres.



Portage La Prairie Mall, Portage La Prairie, Manitoba.

Sunridge Mall Site, Calgary, Alberta.

Kaskitayo Centre Site, Edmonton, Alberta.

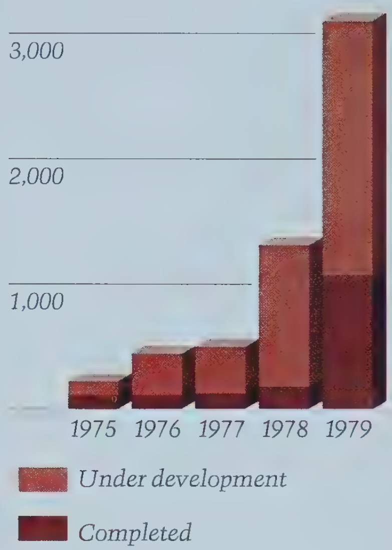
Major Properties

Name	Location	Year(s) of Completion of Development	Rentable Area (Sq. ft.)
Alberta			
BOWER PLACE*	Red Deer	1981	400,000
KASKITAYO CENTRE	Edmonton	1981	795,000
PLAZA 100	Edmonton	1979	19,000
SUNRIDGE MALL	Calgary	1981	650,000
WETASKIWIN MALL	Wetaskiwin	1979	146,000
British Columbia			
COQUITLAM CENTRE**	Coquitlam	1979	722,000
LANGLEY MALL***	Langley	1975	132,000
VALLEY FAIR**	Haney	1979	108,000
WANETA PLAZA	Trail	1979	193,000
California			
AGOURA TOWN CENTER**	Los Angeles County	1979	91,000
AMAR-NOGALES	Los Angeles County	1981	109,000
EUCLID PLAZA**	San Bernardino County	1980	35,000
ROSE PLAZA	Orange County	1980	15,500
Manitoba			
PORTAGE LA PRAIRIE MALL	Portage La Prairie	1979	190,000
Ontario			
NORTHGATE SQUARE PHASES I & II**	North Bay	1980/81	420,000

*75% interest.
**50% interest.
***33⅓% interest.

Rentable Space

(in 000's square feet)



All data presented above is net of joint venture interests.

Residential Properties

Daon's concentration on condominium conversion is demonstrated by The Versailles, a garden apartment project overlooking the Pacific Ocean in Newport Beach, California.

The Company continues to be very active in the residential field. An important segment of Daon's total operations is the acquisition of existing multiple-family rental properties for rehabilitation, conversion and sale, primarily as condominiums or upgraded investment properties.

The Company operates these residential projects as income properties during the approval process, and until market conditions and corporate scheduling facilitate their eventual sale.

During the fiscal year, residential sales totalled 4,261 net units in the following geographic markets: 2,589 units in Southern California; 386 units in Northern California; 386 units in Dallas; 170 units in the Seattle area and 730 units in Vancouver. In addition, at October 31, 1979, the Company had sales agreements for 1,197 units yet to close.

Daon is well positioned to market condominium homes in future years with an inventory of residential properties totalling 7,365 units at fiscal year-end, including those in the income property portfolio, those under active development and those currently being marketed. In addition, 7,865 units are held under option or in escrow for potential purchase.

California remains Daon's most active condominium conversion market. A recent major acquisition of 1,822 units in the Sacramento area includes a variety of projects with high marketing potential. Apart from California and the areas previously mentioned, the Company has holdings in Albuquerque, Oklahoma City, southern Florida and Calgary.

Major Properties

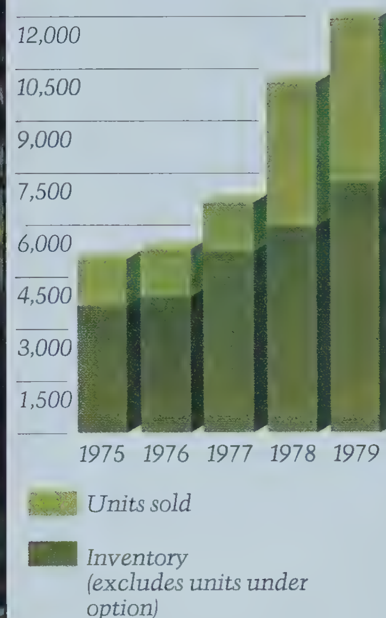
Name	Location	Description	Year(s) of Acquisition or Completion of Development	No. of Units
Alberta				
GREENWOOD VILLAGE I-III*	Calgary	Mobile home park	1976	474
HAYS FARM III & V	Calgary	Garden apartments	1974/77	256
British Columbia				
LANGARA ESTATES	Vancouver	Townhouses and apartments	1979	78
TIMBERLEA	Burnaby	High rise	1976	120

*50% interest.

Residential Properties

Inventory & Sales

(in units)



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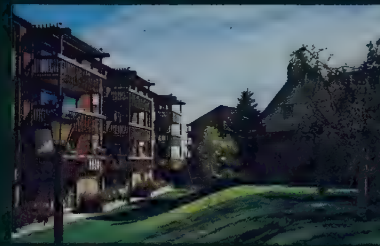
Residential Properties

Daon's concentration on condominium conversion is demonstrated by The Versailles, a garden apartment project overlooking the Pacific Ocean in Newport Beach, California.



Hays Farm, Calgary, Alberta.

Towne Square, King County, Washington.

Langara Estates, Vancouver, British Columbia.

Wedgewood Manor, Seattle, Washington.

Lakewood Shores, King County, Washington.

Governor's Square, Sacramento, California.

The Versailles, Newport Beach, California.

Residential Properties

Sandpiper, Seattle, Washington.

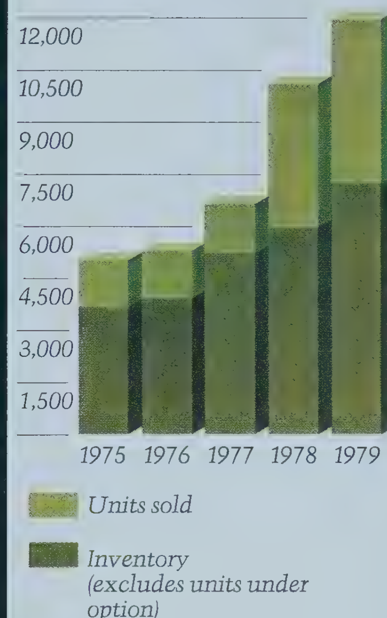
Coté d'Azur, Sausalito, California.

Heritage of Fresno, Fresno County, California.

Woodside, Sacramento, California.

Inventory & Sales

(in units)



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Residential Properties

Daon's concentration on condominium conversion is demonstrated by The Versailles, a garden apartment project overlooking the Pacific Ocean in Newport Beach, California.

The Arbor, Orange County, California.

Alpha Terrace, Los Angeles County.

Turtlecreek Terrace, Dallas, Texas.

Park Lane, Dallas, Texas.

Gold Crest, Dallas, Texas.

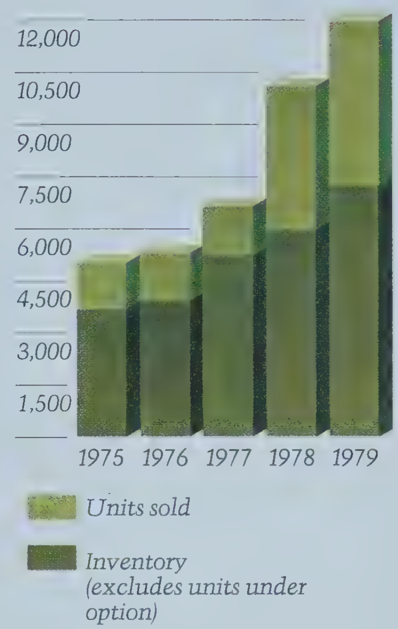
Major Properties (continued)

Name	Location	Description	Year of Acquisition or Completion of Development	No. of Units
California				
ALPHA TERRACE	Los Angeles County	Garden apartments	1979	101
ANDERSON PLACE I & II	Davis	Garden apartments	1978	240
COTÉ D'AZUR	Sausalito	Garden apartments	1979	60
CRANBROOK COURT	Davis	Garden apartments	1978	376
FREMONT OAKS	Alameda County	Garden apartments	1978	226
GOVERNOR'S SQUARE EAST & WEST	Sacramento	Garden apartments	1978	302
HERITAGE HOUSE	Davis	Garden apartments	1978	161
HERITAGE OF FRESNO	Fresno County	Low rise	1978	48
LAKEPOINTE	Santa Clara	Garden apartments	1979	478
LINDENWOOD	Los Angeles County	Low rise	1978	198
NEWCASTLE MANOR	Los Angeles	Low rise	1979	280
SOUTH COAST TERRACE	Orange County	Garden apartments	1978	256
SOUTH COAST VILLAS	Orange County	Garden apartments	1978	304
SYCAMORE GARDENS	Orange County	Garden apartments	1979	100
SYCAMORE LANE	Davis	Garden apartments	1978	182
THE ARBOR	Orange County	Garden apartments	1979	124
THE VERSAILLES	Newport Beach	Garden apartments	1979	255
WOODSIDE I-IV	Sacramento	Garden apartments	1978	561
New Mexico				
PARK PLAZA	Albuquerque	High rise	1979	138
PUEBLO VILLAS	Albuquerque	Garden apartments	1978	232
Texas				
GOLD CREST	Dallas	Luxury high rise	1979	58
PARK LANE**	Dallas	Townhouses	1978	189
RIVER OAKS	Dallas	Garden apartments	1979	270
THE HAVENS	Fort Worth	Garden apartments	1979	104
TURTLECREEK TERRACE	Dallas	Low rise	1979	115
WILLIAMSBURG I & II	Dallas	Garden apartments	1978	148
WOODHAVEN I	Fort Worth	Garden apartments	1979	114
Washington				
SOUTH POINTE	Snohomish County	Garden apartments	1979	249
TOWNE SQUARE	King County	Garden apartments	1979	106
WEDGEWOOD MANOR	Seattle	Garden apartments	1979	180

**60% interest.

Inventory & Sales

(in units)



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Industrial Development

With 16 completed buildings, Daon's Norwester Industrial Estates in northwest dmonton, continues to spond to the strong mand for warehouse/ ce buildings in erta's capital city. his is one of an addi- al six buildings der development.

For several years, the province of Alberta, with its booming, resource-spurred economy, has provided one of the continent's most attractive markets for industrial land and buildings. It is to Alberta that the bulk of the Company's efforts in this field continues to be directed.

The Company's move into the industrial market in Alberta began in 1972 with the acquisition of several hundred acres of land in northwest Edmonton. This was followed by a number of land acquisitions in Calgary which today makes up Horizon Industrial Estates. A specific example of Daon's progress in this field is the Norwester Industrial Estates in Edmonton where the Company has constructed in excess of 1,069,000 square feet of warehouse/office space in 16 buildings, of which 9 buildings of 442,000 square feet have been retained in the Company's income property portfolio.

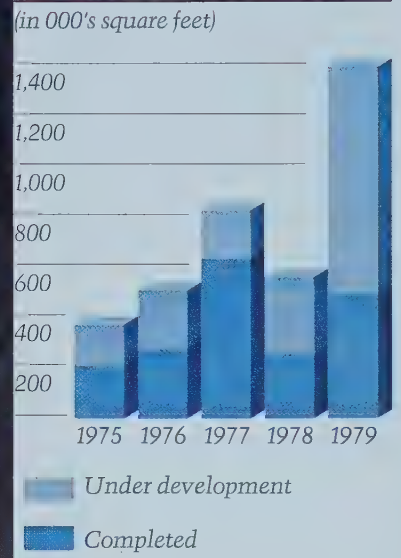
As projects are brought to market, additional industrial acreage is assembled and industrial space developed. For example, during the 1979 fiscal year, Daon sold 79 acres of industrial land and 35,000 square feet of industrial space in Alberta, but at October 31, 1979, still had under development a further 350,000 square feet of industrial space and held 848 net acres of industrial land for future development, mostly in Edmonton and Calgary.

In addition to Alberta, Daon has found opportunities for the development and marketing of industrial properties in southern California. The Company's holdings in California at October 31, 1979, included 43 net acres under development with a further 99 net acres held for future development. The Company is in the process of completing and bringing to market about one million square feet of industrial space in four joint venture projects, two in Orange County and two in San Diego County. These will comprise 56 acres and 43 buildings.

Daon also has several smaller industrial projects underway in British Columbia and Washington State. At October 31, 1979, Daon's total industrial holdings consisted of 483,000 square feet of completed space, 1,471,000 square feet under development, 264 acres of land under development, 1,326 acres of land held for future development and 311 acres under option.

Industrial Development

Rentable Space



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Industrial Development

With 16 completed buildings, Daon's Norwester Industrial Estates in northwest Edmonton, continues to respond to the strong demand for warehouse/office buildings in Alberta's capital city. This is one of an additional six buildings under development.

Uniroyal, Los Angeles, California.

McGaw, Orange County, California.

Miramar Business Park, San Diego, California.

Norwester Industrial Estates, Edmonton, Alberta.

Industrial Development

Major Properties

Name	Location	Year(s) of Completion of Development	Rentable Area (Sq. ft.)
Alberta			
BROADMOOR CENTRE	Edmonton	1978	41,000
NORWESTER INDUSTRIAL PHASE I	Edmonton	1977-79	442,000
NORWESTER INDUSTRIAL PHASE II	Edmonton	1980	350,000
California			
CENTRAL D & C*	San Bernardino County	1980	107,000
IRVINE INDUSTRIAL*	Orange County	1980	168,000
MIRAMAR BUSINESS PARK*	San Diego	1980	140,000
NEWHOPE INDUSTRIAL	Orange County	1979	140,000
RANCHO SAN DIEGO BUSINESS PARK*	San Diego County	1980	566,000

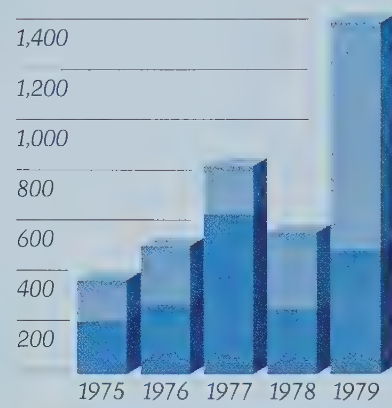
Industrial Land

Name	Location	Year(s) of Acquisition	Size	Scheduled year(s) of development and/or sale
Alberta				
HORIZON INDUSTRIAL ESTATES	Calgary	1973-79	45 acres	1979-81
HORIZON (SUNRIDGE) REMAINDER	Calgary	1973-79	385 acres	1980-85
NORTHWEST LAND ASSEMBLY	Edmonton	1976-78	285 acres	1980-90
NORWESTER INDUSTRIAL PHASE II	Edmonton	1974-78	110 acres	1980-83
British Columbia				
LAKE CITY	Burnaby	1976	26 acres	1979-80

*50% interest.

Rentable Space

(in 000's square feet)



All data presented above is net of joint venture interests.

Land

Daon's largest land development project so far has been The Properties, in northeast Calgary. This development, when completed, will have provided 5,100 serviced lots and 125 acres of multi-family land, for a total of 7,400 residential units.

The Company develops land for sale to home builders as residential building lots or to industrial users for industrial buildings; also, for shopping centres and for sale to others for development of office, industrial and residential buildings. During fiscal 1979, the Company sold approximately 1,578 acres of land, including 1,840 lots sold to residential builders.

Over the past year, Daon has brought under control a number of significant land assemblies in major metropolitan growth markets. At October 31, 1979, Daon's total land holdings, including industrial acreage previously mentioned, were 1,513 acres under development for sale, 10,915 acres held for future development, and 14,285 acres held under option. Daon's current land holdings include several tracts where development will extend over a decade or more.

In Calgary, where development of residential lots has been concentrated, over the past several years, in The Properties, the Company is now turning its attention to The Homesteads, 4,248 acres southeast of Calgary where 500 to 600 lots will be under development in 1980.

Similarly, at Harbour Pointe, a 1,438-acre tract north of Seattle, adjacent to Boeing's production facilities at Paine Field, the Company expects to market some 300 residential lots during 1980.

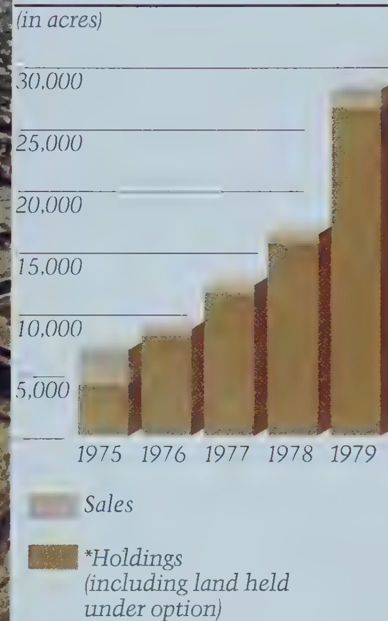
The Company has also made some recent land acquisitions in southern California, Texas and south-east Edmonton and is examining other opportunities to add to its land portfolio in other high-growth locations.

Major Holdings

Name	Location	Description of Development	Year(s) of Acquisition	Size	Scheduled year(s) of development and/or sale
Alberta					
APPLEWOOD PARK	Calgary	Residential	1979	224 acres	1980-83
GIBBONS ASSEMBLY	Gibbons	Residential	1976-78	174 acres	1979-84
THE HOMESTEADS	Calgary	Multi-use	1974-79	4,248 acres	1980-90
THE PROPERTIES	Calgary	Residential	1971-73	104 acres	1979-80
WEST GLEN	Stony Plain	Residential	1974-77	105 acres	1980-85

Land

Holdings & Sales*

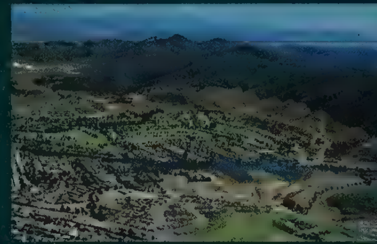


All data presented above is net of joint venture interests

Land

Daon's largest land development project so far has been The Properties, in northeast Calgary. This development, when completed, will have provided 5,100 serviced lots and 125 acres of multi-family land, for a total of 7,400 residential units.

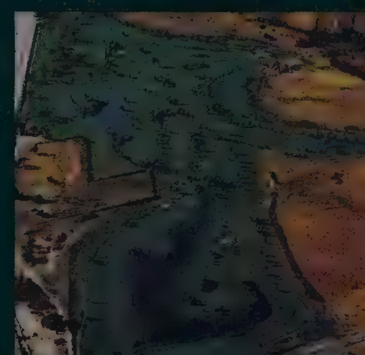
Newcastle Hills, King County, Wash.



Lake San Marcos, San Diego County, California.

Harbour Pointe, Snohomish County, Washington.

Mountain Park, Portland, Oregon.



Soboba Springs, Riverside County, California.

The Homesteads, Calgary, Alberta.

Shadow Ridge, San Diego County, California.

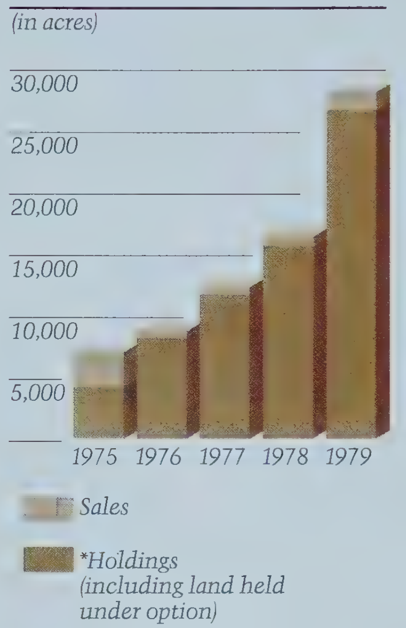
The Quorum, Dallas, Texas.

Major Holdings (continued)

Name	Location	Description of Development	Year(s) of Acquisition	Size	Scheduled year(s) of development and/or sale
British Columbia					
DILWORTH MOUNTAIN	Kelowna	Residential	1973	819 acres	1980-88
GLADWIN	Matsqui	Residential	1979	52 acres	1980-81
WILLOUGH PARK	Langley	Residential	1978	86 acres	1979-82
California					
BROOKWOOD	Riverside County	Residential	1979	130 acres	1981
BUTTERFIELD ESTATES	Riverside County	Mobile Home Park	1978	60 acres	1979-80
CARRILLO RANCH	San Diego County	Residential	1979	435 acres	1980-83
INDIAN WELLS	Palm Springs	Commercial	1979	62 acres	1980-81
LAKE SAN MARCOS	San Diego County	Residential/office	1976	104 acres	1979-81
MOCKINGBIRD CANYON	Riverside County	Residential	1977	329 acres	1980
TIERRA DEL SOL	Kern County	Mobile Home Park	1977	40 acres	1979-80
SHADOW RIDGE	San Diego County	Multi-use	1976-77	993 acres	1980-88
SOBOBA SPRINGS	Riverside County	Residential	1978	247 acres	1979-82
UNIROYAL	Los Angeles	Multi-use	1979	56 acres	1980-81
Oregon					
MOUNTAIN PARK & TOWN CENTER	Portland	Multi-use	1978	116 acres	1979-80
SANDPIPER	Portland	Residential	1979	60 acres	1980-81
Texas					
THE QUORUM, NORTH & SOUTH	Dallas	Commercial	1978-79	86 acres	1979-81
WOODHAVEN	Fort Worth	Multi-use	1978	141 acres	1980-82
Washington					
BROOKTRAILS	King County	Residential	1979	110 acres	1979-81
HARBOR POINTE	Snohomish County	Multi-use	1978	1,438 acres	1980-90
NEWCASTLE HILLS*	King County	Residential	1978	100 acres	1980-82

*The Company has an additional 1,700 acres under option.

Holdings & Sales*



All data presented above is net of joint venture interests.

Summary of Significant Accounting Policies

A. General

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

B. Consolidation

The consolidated financial statements of the Company include:

(i) the accounts of Daon Development Corporation and its subsidiaries.

(ii) the accounts of those incorporated and unincorporated joint ventures and partnerships in which the Company holds at least a 50% interest, to the extent of the Company's interest in their respective assets, liabilities, revenues and expenses.

C. Income recognition

The Company recognizes income as follows:

(i) Sales of land and income producing properties
When the Company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

(ii) Sales of homes
When the sale has been completed and the purchaser is entitled to occupancy.

(iii) Rental
Rental income from each income producing property is recognized in the consolidated statement of income when breakeven cash flow after debt service is achieved. Prior to achieving this level of cash flow the Company capitalizes rental losses as a part of the normal development cost of an income property, subject to not capitalizing costs beyond fair market value of the property and subject to a reasonable maximum lease-up period.

D. Income producing properties

Income producing properties are carried at cost less accumulated depreciation. Depreciation on buildings is provided on the sinking fund basis over a 50-year life for office buildings and shopping centres and a 40-year life for residential and industrial buildings. The sinking fund method provides for a depreciation charge of a fixed annual amount increasing at the rate of 5% per annum, which will result in the cost of the properties being fully depreciated over their estimated useful lives.

Properties under development

Properties under development for retention as income producing properties are carried at cost. Each property under development for sale is carried at the lower of its cost and net realizable value.

Properties held for future development

Each property held for future development is carried at the lower of its cost and net realizable value.

Marketable securities

Marketable securities are carried at the lower of cost and quoted market value. Sales transactions are recorded on settlement dates.

Investments

Each investment is carried at cost. Sales transactions are recorded on settlement dates.

Capitalization of costs

The Company capitalizes all direct costs relating to properties under development and properties held for future development. In addition, certain indirect costs including specific interest, property taxes and interest on the portion of total costs financed by general corporate borrowings are capitalized. Where overhead costs, including salaries, can be clearly identified with the development of a property, the Company allocates these costs to that property.

J. Depreciation and amortization of other assets

Equipment is depreciated using either the diminishing balance or straight-line method over the estimated useful lives of the assets concerned. Debenture financing costs are amortized over the term of the financing after giving effect to any sinking fund and purchase fund requirements.

K. Foreign exchange

Asset and liability accounts in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the balance sheet dates. Revenue and expenses are translated at weighted average rates prevailing during the year. Gains or losses from exchange translations are included within the consolidated statement of income.

Daon Development Corporation

Consolidated Statement of Income

for the year ended October 31, 1979

	Note Reference	1979	1978
		(in thousands of dollars)	
REVENUE			
Real estate sales		$477,955	$308,172
Rental		35,662	31,888
Other	17	20,091	7,642
Total revenue		533,708	347,702
EXPENSES			
Cost of real estate sales		386,913	260,744
Rental operating costs		19,208	16,986
Interest	18	31,615	22,921
General and administrative		12,509	8,151
Depreciation and amortization		2,602	2,094
Other		1,308	1,748
Total expenses		454,155	312,644
INCOME BEFORE INCOME TAXES		79,553	35,058
Income taxes		35,718	18,338
NET INCOME		$ 43,835	$ 16,720
EARNINGS PER COMMON SHARE	22	$2.28	$0.90

Consolidated Statement of Retained Earnings

for the year ended October 31, 1979

	1979	1978
	(in thousands of dollars)	
Retained earnings, beginning of year	$ 45,140	$ 30,967
Net income	43,835	16,720
	88,975	47,687
Dividends—Common Shares	2,529	1,038
—Preference Shares	2,167	—
—75¢ Class A Shares	478	478
Share issue expenses	767	1,031
	5,941	2,547
RETAINED EARNINGS, END OF YEAR	$ 83,034	$ 45,140

Daon Development Corporation

Consolidated Balance Sheet

October 31, 1979

	Note Reference	1979	1978
		(in thousands of dollars)	
ASSETS			
Properties:			
Income producing	1	**$ 343,256**	$220,785
Under development	2	**298,267**	201,840
Held for future development	3	**203,147**	60,874
Cash and term deposits	4	**145,734**	39,939
Marketable securities	5	**12,343**	—
Amounts receivable	6	**177,845**	108,190
Investments	7	**28,711**	13,946
Other assets	8	**13,061**	8,048
		$1,222,364	$653,622
LIABILITIES			
Debt on properties:	9		
Income producing		**$ 275,983**	$170,234
Under development		**219,445**	127,858
Held for future development		**178,706**	38,220
Debentures payable	10	**129,576**	71,686
Other secured liabilities	11	**108,344**	61,549
Accounts payable and accruals	12	**99,898**	60,620
Deferred income taxes	13	**86,328**	51,071
		1,098,280	581,238
SHAREHOLDERS' EQUITY			
Capital stock	14	**45,646**	30,144
Retained earnings		**83,034**	45,140
		128,680	75,284
Shares held by subsidiary	15	**4,596**	2,900
		124,084	72,384
		$1,222,364	$653,622

Approved by the Directors:
WILLIAM H. LEVINE, *Director*
JOHN W. POOLE, *Director*

Daon Development Corporation

Consolidated Statement of Cash Flow from Operations

for the year ended October 31, 1979

	1979	1978
	(in thousands of dollars)	
Net income	$ 43,835	$ 16,720
Items not requiring a current outlay of cash:		
Deferred income taxes	35,257	16,847
Depreciation and amortization	2,602	2,094
Other	231	153
CASH FLOW FROM OPERATIONS	$ 81,925	$ 35,814
CASH FLOW PER COMMON SHARE *(Note 22)*	$4.40	$1.96

Consolidated Statement of Changes in Financial Position

for the year ended October 31, 1979

	1979	1978
	(in thousands of dollars)	
OPERATIONAL ACTIVITIES		
Cash flow from operations	$ 81,925	$ 35,814
Cash recovered through sales of properties:		
recovery of real estate costs	386,913	260,744
less debt discharged on properties sold	249,298	194,725
	137,615	66,019
Gross cash flow from operations	219,540	101,833
Cash applied to properties:		
income producing	234,084	108,881
under development	364,484	237,303
held for future development	151,219	11,711
	749,787	357,895
less net proceeds from property debt	587,120	237,831
	162,667	120,064
NET CASH PROVIDED FROM (APPLIED TO) OPERATIONAL ACTIVITIES	56,873	(18,231)
OTHER ACTIVITIES		
Net increase in marketable securities	12,343	—
Net increase in investments	14,765	1,419
Net increase in other assets	6,143	3,219
Dividends paid	5,174	1,516
NET CASH APPLIED TO OTHER ACTIVITIES	(38,425)	(6,154)
CORPORATE FINANCING ACTIVITIES		
Net proceeds from debenture issues	59,275	28,663
less debentures purchased and redeemed	1,385	413
	57,890	28,250
Net proceeds from share issues	15,464	24,041
less—shares purchased by subsidiary	1,696	1,182
—shares purchased and redeemed	729	—
	13,039	22,859
Net proceeds from other secured debt	46,795	30,187
Net increase in amounts receivable	(69,655)	(54,549)
Net increase in amounts payable and accruals	39,278	31,526
	16,418	7,164
NET CASH PROVIDED FROM CORPORATE FINANCING	87,347	58,273
INCREASE IN CASH AND TERM DEPOSITS	$105,795	$ 33,888

Notes to Consolidated Financial Statements

October 31, 1979

1. Income producing properties

	1979	1978
	(in thousands of dollars)	
Residential properties	$200,009	$134,516
Office buildings	75,025	75,990
Shopping centres	59,608	6,866
Industrial buildings	11,389	5,778
	346,031	223,150
Accumulated depreciation	2,775	2,365
	$343,256	$220,785

The Company's residential income properties consist of 6,080 units (1978—5,216 units) of which 2,724 units (1978—2,301 units) have been subdivided and registered as condominiums. The Company will market these as condominiums when operating and financial plans warrant.

2. Properties under development

	1979	1978
	(in thousands of dollars)	
Income properties under development:		
Office buildings	$ 71,587	$ 42,696
Shopping centres	19,409	39,028
Industrial buildings	8,515	5,229
Mobile home parks	2,246	—
	101,757	86,953
Lots for sale	108,160	56,578
Land under development for sale	88,350	58,309
	$298,267	$201,840

3. Properties held for future development

	1979	1978
	(in thousands of dollars)	
Purchase price	$148,222	$ 39,320
Preliminary development costs	13,791	5,953
Capitalized costs	23,191	11,129
	185,204	56,402
[illegible] deposits and related costs	17,943	4,472
	$203,147	$ 60,874

4. Cash and term deposits

$5,700,000 has been pledged or lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

5. Marketable securities

Marketable securities have quoted market values of $12,391,000 and have been pledged or lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

6. Amounts receivable

	1979	1978
	(in thousands of dollars)	
Mortgages and agreements for sale	$119,774	$ 77,606
Amounts due on real estate sales	43,988	19,534
Rents and other tenant charges	1,954	1,363
Secured advances due from joint venture partners	6,662	4,464
Amounts receivable from employees pursuant to stock purchase plans and house mortgage loans, including $920,000 due from certain directors and officers (1978—$862,000)	1,147	1,269
Sundry	4,320	3,954
	$177,845	$108,190

The mortgages and agreements for sale yield a weighted average interest rate of 11.5% per annum (1978—10.3%).

The due dates of the amounts receivable are as follows:

	(in thousands of dollars)
Years ending October 31, 1980	$116,952
1981	14,276
1982	9,541
1983	8,823
1984	22,927
Subsequent to 1984	5,326
	$177,845

7. Investments

	1979	1978
	(in thousands of dollars)	
Marketable securities acquired for long-term investment, having a quoted market value of $35,734,000 (1978—$17,914,000)	$ 25,430	$ 13,946
Other	3,281	—
	$ 28,711	$ 13,946

Marketable securities with quoted market values of $10,368,000 have been pledged or lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank. Subsequent to October 31, 1979, the Company sold a significant portion of its investment portfolio (see Note 24).

8. Other assets

	1979	1978
	(in thousands of dollars)	
Prepaid expenses	$ 3,811	$ 1,527
Equipment and sundry assets, at cost less accumulated depreciation of $1,566,000 (1978—$719,000)	6,455	3,623
Debenture financing and issue expenses, net of accumulated amortization of $611,000 (1978—$380,000)	2,795	2,898
	$ 13,061	$ 8,048

Notes to Consolidated Financial Statements (continued)

October 31, 1979

9. Debt on properties

	1979 (in thousands of dollars)			1978
	Long-term Debt	Interim Financing	Total	Total
Income producing	$158,909	$117,074	$275,983	$170,234
Under development	60,484	158,961	219,445	127,858
Held for future development	103,517	75,189	178,706	38,220
	$322,910	$351,224	$674,134	$336,312

Construction loans on income properties under development, which are supported by take-out commitments for long-term financing, are classified as long-term debt, using the interest rates and maturities of the related commitments.

The Company has financed certain of its Canadian assets with debt repayable in U.S. dollars. This debt, translated into Canadian dollars at October 31, 1979, amounts to $2,565,000 (1978—$16,884,000).

The long-term debt bears interest at a weighted average rate of 10.0% per annum (1978—10.1%), with principal repayments due as follows:

	(in thousands of dollars)
Years ending October 31, 1980	$ 57,138
1981	42,268
1982	33,364
1983	15,946
1984	17,040
Subsequent to 1984	157,154
	$322,910

The interim financing is expected to be discharged or replaced by long-term debt as follows:

	(in thousands of dollars)
a) To be discharged at the time of sale of property (the Company having purchase commitments as at December 1, 1979 that will result in the discharge of $16,064,000 of this amount)	$ 72,344
b) To be assumed or discharged by purchasers of homes (the Company having arranged commitments from lenders to provide long-term mortgage funds as required by qualified purchasers)	129,860
c) To be replaced with long-term debt for which the Company has yet to arrange commitments	65,590
d) To be either replaced by alternative financing for which the Company has yet to arrange commitments, or discharged when due	83,430
	$351,224

10. Debentures payable

	1979	1978
Daon Development Corporation	(in thousands of dollars)	
9¾% Sinking Fund Debentures, Series C, maturing April 15, 1994, retractable April 15, 1984	$ 8,194	$ 8,686
11½% Sinking Fund Debentures, Series E, maturing April 1, 1991, retractable October 1, 1982	14,966	15,000
11¼% Sinking Fund Debentures, Series F, maturing March 1, 1997, retractable March 1, 1986	17,621	18,000
11% Sinking Fund Debentures, Series G, maturing February 15, 1998, retractable February 15, 1988	14,745	15,000
11¼% Sinking Fund Debentures, Series H, maturing June 15, 1998, retractable June 15, 1988	14,775	15,000
Daon Corporation (a wholly-owned subsidiary)		
Floating Rate Subordinated Debenture, Series A, due October 15, 1999	59,275	—
	$129,576	$ 71,686

10. Debentures payable (continued)

The debentures of Daon Development Corporation are secured by a first floating charge, subject to the exceptions permitted by the instruments authorizing the issuance of each series, on the assets of Daon Development Corporation (but not the assets of any subsidiary company).

The Debenture of Daon Corporation is an unsecured obligation of Daon Corporation and carries a floating interest rate which at October 31, 1979 is 16¼% per annum. This Debenture was issued under a Debenture purchase agreement which provides, among other things, that Daon Development Corporation will, at the request of the debenture holder or under certain conditions, purchase this Debenture by April 15, 1981.

As well as being required to establish a sinking fund for its debentures, the Company is required, subject to certain defined conditions, to establish a purchase fund for certain of its debentures. The maximum amount required to meet sinking fund and purchase fund requirements for the next five years is as follows:

	(in thousands of dollars)		
	Sinking Fund	Purchase Fund	Total
Years ending October 31, 1980	$ 294	$ 947	$ 1,241
1981	500	1,840	2,340
1982	2,871	1,840	4,711
1983	3,561	1,440	5,001
1984	3,561	1,440	5,001
	$ 10,787	$ 7,507	$ 18,294

11. Other secured liabilities

These interest bearing liabilities, due at various intervals to 1990, are secured by the following non-property assets:

	1979 (in thousands of dollars)			1978
	Long-term Debt	Interim Financing	Total	Total
Amounts receivable	$ 12,105	$ 76,998	$ 89,103	$ 52,122
Investments	8,965	10,276	19,241	9,427
	$ 21,070	$ 87,274	$108,344	$ 61,549

12. Accounts payable and accruals

	1979 (in thousands of dollars)	1978
Accounts payable	$ 31,096	$ 20,841
Accrued liabilities	24,743	13,122
Deferred income and deposits	11,583	5,492
Costs to complete properties sold	32,476	21,165
	$ 99,898	$ 60,620

13. Deferred income taxes

The Company follows the tax allocation method of accounting for income taxes under which full provision for income taxes is made on the entire reported income. Deferred income taxes arise primarily from:

(a) the difference between depreciation rates employed for book purposes and those allowed for tax purposes.

(b) income recorded currently for book purposes but reported for tax purposes as the sale proceeds are collected.

(c) income from partnerships recorded currently for book purposes but taxable in later periods.

(d) the capitalization of certain development and carrying costs for book purposes but deducted currently for tax purposes.

14. Capital stock

Authorized—

49,804,252	Common Shares without par value
10,000,000	Preference Shares with a par value of $10 each issuable in series, of which 2,500,000 are designated as 8⅝% Cumulative Redeemable Preference Shares, Senior Series A and 1,500,000 are designated as 9½% Cumulative Redeemable Preference Shares, Senior Series B
2,000,000	75¢ Class A Shares without par value

ued—		1979	1978
		(in thousands of dollars)	
19,761,704	Common Shares	$ 5,331	$ 4,100
2,427,100	8⅝% Cumulative Redeemable Preference Shares, Senior Series A	24,271	25,000
1,500,000	9½% Cumulative Redeemable Preference Shares, Senior Series B	15,000	—
641,076	75¢ Class A Shares (redeemable at $6.00 per share at any time)	1,044	1,044
		$ 45,646	$ 30,144

...bruary 23, 1979, the Company subdivided its issued Common Shares on a two-for-one basis and increased its authorized share capital ...04,252 Common Shares. During the year, 230,000 Common Shares were issued for a consideration of $1,231,000 (1978—182,400 shares ...72,000).

...October 10, 1979, the Company issued 1,500,000 9½% Cumulative Redeemable Preference Shares, Senior Series B, for $15,000,000 cash.

...f October 31, 1979, 9,600 Common Shares are reserved for issue in connection with a Company stock option which was granted to ...mployee at the then prevailing market price of $3.69 per Common Share. During 1979 no new options were granted.

...Company is entitled to purchase in the open market for cancellation all, or any number of 75¢ Class A Shares at any price and at any ... Each 75¢ Class A Share is redeemable at the shareholder's option on October 31, 1985 at $6.00.

... the special rights or restrictions attaching to the Preference Shares, Series A and B and, under the terms of the Trust Indenture pro... for the issuance of the Daon Development Corporation debentures, the Company may not pay dividends unless certain prescribed ...rements are met. In management's opinion, these restrictions will not affect the Company's present dividend policy.

... the special rights or restrictions attaching to the Preference Shares, Series A and B, the Company is required during each quarter, ...t to certain conditions, to purchase for cancellation in the market, 1% of the Preference Shares, Series A outstanding at March 31, ...nd 1% of the Preference Shares, Series B outstanding at March 31, 1980, the latter commencing April 1, 1980.

. Shares held by subsidiary

...ing the current year the Company purchased in the open market, through a subsidiary, 113,320 Common Shares for $1,696,000, pursuant to ... policy of expending in each fiscal year, under certain conditions, approximately 10% of its consolidated net income for the prior fiscal year ...purchase Common Shares of the Company. The subsidiary now holds 1,700,000 Common Shares of the Company at a cost of $4,596,000.

6. Contingent liabilities and commitments

(a) The Company is contingently liable for obligations of certain joint ventures and partnerships amounting to $78,011,000. However, the assets of each joint venture or partnership are available and adequate to satisfy the individual obligations of the joint venture or partnership.

(b) The Company has entered into lease agreements for terms of up to 40 years. The maximum annual rental payments required are $1,974,000. The Company has also guaranteed annual rental payments to a maximum of $5,429,000 in connection with the sale of certain assets; in most instances, the Company has been successful in obtaining leases or subleases that will largely offset the cost of these guarantees.

(c) The Company has contracted costs to complete income properties under development amounting to $108,405,000. The Company has finance commitments for $89,649,000 of these costs.

(d) The estimated cost to complete homes for sale and land under development for sale amounts to $64,917,000. These costs will be financed through the proceeds of sale of these properties or by drawing on finance commitments of $20,286,000.

(e) The earnings of foreign subsidiaries may be subject to withholding taxes when they are distributed, however these taxes have not been provided for as the subsidiaries have no intention of declaring a dividend at this time.

(f) The Company has no unfunded pension liabilities.

17. Other revenue

	1979	1978
	(in thousands of dollars)	
Interest and other income	$ 7,887	$ 4,396
Management fee income	5,242	2,934
Net gain from foreign exchange translations and transactions	2,473	126
Net gain on sales of marketable securities and investments	2,628	—
Dividend income	1,861	186
	$ 20,091	$ 7,642

18. Interest

	1979	1978
	(in thousands of dollars)	
Interest charges were incurred from:		
Debt on properties	$ 63,878	$ 35,163
Debentures	8,252	6,590
Bank indebtedness and other secured debt	7,476	3,351
	79,606	45,104
less interest directly capitalized or allocated to properties under development and held for future development	47,991	22,183
Interest expense	$ 31,615	$ 22,921

19. Capitalized costs

During the year the Company capitalized the following indirect costs:

	1979	1978
	(in thousands of dollars)	
Interest	$ 47,991	$ 22,183
Property taxes, net	1,979	2,243
Other indirect costs	8,286	5,241
	$ 58,256	$ 29,667
These costs were capitalized to properties as follows:		
Income properties under development	$ 15,770	$ 7,152
Homes for sale	14,719	8,153
Land under development for sale	12,453	8,635
Land held for future development	15,314	5,727
Capitalized during the year	$ 58,256	$ 29,667

The following summarizes the flow of capitalized costs through properties under development and held for future development:

	1979	1978
	(in thousands of dollars)	
Balance, beginning of year	$ 27,829	$ 19,632
Capitalized during the year	58,256	29,667
	86,085	49,299
Less—amounts included in cost of real estate sales	25,647	17,369
—amounts transferred to income producing properties	10,216	4,101
Balance, end of year	$ 50,222	$ 27,829

20. Joint ventures and partnerships

The following amounts included within the consolidated financial statements represent the Company's proportionate share of its interest in joint venture and partnership developments:

	1979	1978
	(in thousands of dollars)	
Assets	$108,168	$ 41,180
Liabilities	87,156	34,354
Revenue	40,125	11,951
Expenses	28,401	9,768

21. United States operations

The condensed balance sheet, expressed in Canadian dollars, of the Company's U.S. operations, is as follows:

	1979	1978
	(in thousands of dollars)	
Assets		
Properties	$499,802	$224,545
Cash	108,623	14,305
Receivables	107,873	49,061
Other assets	5,918	1,325
	$722,216	$289,236
Liabilities		
Debt on properties	$373,615	$148,170
Accounts payable, accruals and other debt	118,422	50,759
Debenture payable	59,275	—
Deferred income taxes	41,089	15,617
Advances from affiliated company and shareholder's equity	129,815	74,690
	$722,216	$289,236

22. Per share calculations

Earnings and cash flow per Common Share have been calculated using the weighted average number of Common Shares outstanding during the year (net of shares held by a subsidiary) after providing for dividends on the outstanding Preference Shares and 75¢ Class A Shares.

The 1978 earnings and cash flow per Common Share have been restated to reflect the subdivision of Common Shares referred to in Note 14.

23. Remuneration of directors and senior officers

The aggregate remuneration for the year paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company amounted to $1,848,000 (1978—$1,197,000).

24. Material subsequent event

In late October, the Company made arrangements to sell a significant portion of its investment portfolio for $18,315,000. On November 5, 1979 this transaction was completed, resulting in a gain, after tax, of $7,852,000 which will be included in the Company's 1980 first quarter statement of income.

Auditors' Report

To the Shareholders,
Daon Development Corporation:

We have examined the consolidated balance sheet of DAON DEVELOPMENT CORPORATION (a British Columbia company) and subsidiaries as of October 31, 1979 and 1978, and the related consolidated statements of income, retained earnings, cash flow from operations and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Daon Development Corporation and subsidiaries as of October 31, 1979 and 1978, and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Vancouver, B.C.
December 10, 1979.

Corporate Directory

Daon Development Corporation

Directors

ac D. Campbell, *Senior Vice-President and hief Financial Officer*
aon Development Corporation, Vancouver

illiam J. Corcoran, *President*
. J. Corcoran Company Ltd., Toronto

ham R. Dawson, *President*
Construction Limited, Vancouver

M. Hungerford, *President*
Lox Industries Ltd., Vancouver

aiser Jr., *Chairman and Chief Executive Officer*
esources Ltd., Vancouver

liam B. Laurie, *Executive Vice-President and Secretary*
son Construction Limited, Vancouver

liam H. Levine, *Executive Vice-President*
Development Corporation, Vancouver

e B. McKeen, *President*
een & Wilson Ltd., Vancouver

A. L. Nunn, *Senior Vice-President*
velopment Corporation, Calgary

oole, *President and Chief Executive Officer*
Development Corporation, Vancouver

D. Stout, *Executive Vice-President*
orporation, Newport Beach

rporate Officers

C. Benmore, *Vice-President and Treasurer*

Campbell, *Senior Vice-President and Financial Officer*

R. Dawson, *Chairman of the Board*

H. Findlay, *Vice-President, dministration and Secretary*

asil V. Franey, *Senior Vice-President*

Raymond J. Langrish, *Vice-President and Senior Controller*

William H. Levine, *Executive Vice-President*

ussell A. L. Nunn, *Senior Vice-President*

John W. Poole, *President and Chief Executive Officer*

Jonathan H. B. Rees, *Controller*

George C. Reifel, *Vice-President, Corporate Finance*

James D. Stout, *Senior Vice-President*

June E. Vassos, *Assistant Secretary*

Daon Corporation
Wholly-owned U.S. Subsidiary

Directors

Mac D. Campbell, *Senior Vice-President and Chief Financial Officer*
Daon Development Corporation

William F. Garlock, *Vice-President, Project Finance*
Daon Corporation

John C. Garrett, *Partner*
Drummy Garrett & King

William H. Levine, *Executive Vice-President*
Daon Development Corporation

Russell A. L. Nunn, *Senior Vice-President*
Daon Development Corporation

John W. Poole, *President and Chief Executive Officer*
Daon Development Corporation

Thomas J. Rielly, *Vice-President*
Daon Corporation

James D. Stout, *Executive Vice-President*
Daon Corporation

Corporate Officers

Morris S. Cohen, *Controller*

William F. Garlock, *Vice-President, Project Finance*

John C. Garrett, *Secretary*

Robert R. Klein, *Director, Taxation*

William H. Levine, *President*

John W. Poole, *Chairman and Chief Executive Officer*

William B. Seith, *Treasurer*

James D. Stout, *Executive Vice-President*

Richard A. Verry, *Assistant Secretary*

Operating Officers

J. Michael Alewine,
Regional Vice-President—Daon Management

Kenneth V. Bellamy,
Senior Vice-President—Pacific Northwest

Warren A. Colton, III, *Senior Vice-President—Land*

Basil V. Franey, *President—Daon Management*

John E. Harris, *Senior Vice-President—Office Centres*

Jeffrey W. LeHecka,
Vice-President—Commercial/Industrial

Donald R. Milliken, *Vice-President—Shopping Centres*

Russell A. L. Nunn, *President—Canadian Operations*

Alvin G. Poettcker, *Vice-President—Shopping Centres*

Thomas J. Rielly, *Vice-President*

Rodney A. Schroeder,
Senior Vice-President—Shopping Centres

Donald J. Schweitzer, *General Manager—Office Centres*

Courtney L. Seeple,
Vice-President—Residential Marketing

Michael D. Shatsky,
Senior Vice-President—Residential Marketing

Brenton R. Siddons,
Senior Vice-President—Commercial/Industrial

James D. Stout, *President—U.S. Operations*

Joseph J. Stucker, *Vice-President—Land (Texas)*

Laurence Sunderland,
Regional Vice-President—Daon Management

Richard M. Tucker,
Regional Vice-President—Daon Management

Donald H. Weber,
Senior Vice-President—Daon Management

James C. Whitehead, *Senior Vice-President—Land*

Corporate Offices

Daon Development Corporation

1050 West Pender Street
Vancouver, B.C. V6E 3S8

Branch offices in Calgary and Edmonton

Daon Corporation

4041 MacArthur Boulevard
Newport Beach
California 92660

Branch offices in Seattle, Portland, San Francisco and Dallas

Auditors

Arthur Andersen & Co.

Transfer Agents and Registrars

Common Shares and 75¢ Class A Shares
National Trust Company, Limited

8⅝% Preference Shares, Senior Series A and
9½% Preference Shares, Senior Series B
The Canada Trust Company

Trustees for Debentures

Daon Development Corporation
National Trust Company, Limited

Daon Corporation
Crocker National Bank

Stock Exchange Listings

Vancouver Stock Exchange
Toronto Stock Exchange
Montreal Stock Exchange
Alberta Stock Exchange

NESBITT RESEARCH

Daon Development Corporation

JUNE 1980

NESBITT THOMSON BONGARD INC.
NESBITT THOMSON SECURITIES LIMITED

DAON DEVELOPMENT CORPORATION
(DAO - TSE, VSE)

Current Price	Price Range	E.P.S. 1979	E.P.S. 1980	E.P.S. 1981	C.F.P.S. 1979	C.F.P.S. 1980	C.F.P.S. 1981		(1) P/E (2) P/CFPS 1980	(1) P/E (2) P/CFPS 1981	Ind. Div.	Rec.
$7.50	$7.75-$4.80	$1.10	$1.10	$1.40	$2.13	$2.15	$2.80	(1)	6.8x	5.3x	$0.12	BUY
								(2)	3.5x	2.7x		

Highlights

As at Jan. 31, 1980, the Company had $148 million in cash, putting it in an exceptionally strong position to withstand any financial squeeze and to take advantage of potential new real estate investments.

More importantly however, the Company currently has 6 major land assemblies - one each in Calgary and Edmonton and two each in San Diego and Seattle - four markets that will be "Hot" in the 1980's and should yield the Company substantial long-term profits. The Company also holds options on prospective real estate locations which, if undertaken and completed, will result in the development of an additional 6 million square feet in office space.

The track record of the Company's management is excellent. With its cash position and current real estate investments, the Company is well positioned to continue to realize its long-term growth potential.

Recommendation

We consider Daon attractive for long-term investment. At current levels, the common stock is trading in the mid-to-lower multiple range based on historic norms, particularily in terms of the Company's 1981 profit potential. We recommend investors begin to build initial positions and would strongly suggest further accumulation of the stock should it weaken because of poor general market performance.

THOMAS LAW

JUNE 11, 1980; Ref. 8b
MONTREAL, QUEBEC

DAON DEVELOPMENT

Profile

Daon Development Corporation is a multi-faceted real estate Company whose major activities are the development of income properties, land, and condominium conversion. Measured by any parameter, the Company's record over the last 5 years has been outstanding.

($ Million)		1979	1978	1977	1976	1975	4 yr. Growth (Log Linear)
Assets		1,222.0	653.6	464.3	278.2	216.7	53.9
Appraisal Value							
After Tax	- Gross	315.7	184.6	98.9	77.6	NA	NA
	- Per Share ($)	7.54	4.34	2.58	2.03	NA	NA
Revenues		533.7	347.7	155.7	123.2	102.9	54.2
Cash Flow per Common Share							
	- Gross	79.2	35.3	23.4	14.8	13.3	55.9
	- Per Share ($)	2.13*	0.98	0.65	0.40	0.35	56.0
Net Earnings Available							
for Common	- Gross	41.2	16.2	10.1	7.3	6.2	58.2
	- Per Share ($)	1.10*	0.45	0.28	0.20	0.16	59.5
Dividends per Common							
Share ($)		0.07	0.03	0.015	-	0.01	NA
Book Value of Common							
Equity	- Gross	81.0	43.4	30.2	21.4	18.2	44.7
	- Per Share ($)	2.24	1.21	0.84	0.59	0.46	44.5
Return on Average Common							
Equity (%)		66.5	43.7	38.6	39.1	NA	-

* Restated because of change in accounting for foreign exchange transactions.

Growth

A high concentration in projects that readily produce cash flow has been a major Daon strategy. Accordingly, the Company has centered its activities in three major areas -the first two produce the cash flow, the last is an area in which to invest the cash: (1) the development and sale of land (2) the purchase, conversion and sale of apartment complexes as condominiums, and (3) the development of income properties for retention

and management. Of particular note, however, is the Company's uninhibited willingness to sell any of its properties and reinvest the proceeds in more opportune projects. Virtually any kind of property has been sold - shopping centres, office buildings, industrial buildings, apartment complexes and land assemblies - for this purpose. The ability to identify and act on new investment opportunities, even to shift to new markets and products has been the key to Daon's success.

An indication of this strategy has been Daon's geographic diversification. Up to 1975, virtually all of Daon's real estate activities were centred in Western Canada - Alberta and British Columbia. In 1976, the Company embarked on an aggressive diversification program, initially into southern California (Orange and San Diego Counties) but gradually throughout the American sunbelt and the northwest United States. The initial thrust of this program was land acquisition for development and sale which was followed closely by significant investments in multi-family housing units for conversion and income properties. Currently, the book value of the Company's assets in the U.S. has surpassed the value of its Canadian assets.

October 31, 1979 ($ Millions)	Income Properties	Properties Under Development	Properties Held for Future Development	Total
Canada				
Alberta	58.5	39.3	98.5	196.3
British Columbia	59.5	41.7	10.1	111.3
Other	33.0	2.2	0.1	35.3
Total	151.0	83.2	108.7	342.9
United States				
California	144.4	130.5	68.0	342.9
Texas	19.0	41.7	8.6	69.3
Washington	13.9	20.3	17.0	51.2
Other	14.9	22.6	0.8	38.3
Total	192.2	215.1	94.4	501.7
Total	343.2	298.3	203.1	844.6

Note: Properties under development include Income Properties as well as Land and Housing Units under Development. Approximately $50 million of Properties under Development in California would relate to income properties; similarily $20 million of this category in British Columbia would be reflected in Income Properties under Development. Alberta accounts for approximately $25 million invested in Income Properties under Development. The balance ($196 million) is comprised of Housing Units for sale - $108 million, mostly in California, and Land under Development - $88 million spread between Alberta, British Columbia, California and Washington. Properties held for Future Development consist$ entirely of Land.

We believe Daon has centered its real estate investments in locations which will yield substantial long-term profits. Specifically, the Company has assembled six major land developments in the following four areas **(1)** Calgary; "The Homesteads", 4284 acres, residential-multi-use, **(2)** Edmonton - 1188 acres, residential-multi-use, **(3)** San Diego; "Shadow Ridge", 993 acres, residential-multi-use, "Lago Dorado", 1068 acres residential-multi-use, **(4)** Seattle; "Harbour Pointe", 1438 acres, residential-multi-use, "New Castle Hills" 1763 acres residential; (under drawdown option), all markets with housing shortages projected over the next five years. The Company's housing projects for condominium conversion are also located in similar markets where housing shortages are expected to appear which will provide the Company with the necessary turnover to maintain this investment or expand into new markets. Further, the Company holds options on land sites which will, if undertaken and completed, result in the development of approximately 6 million square feet of additional rentable office space. We view Daon as holding the current and potential real estate investments for outstanding long-term growth.

1980-1981 Outlook

The following is a more detailed discussion of each of Daon's real estate activities. We note that while the Company is well positioned in several of North America's strongest real estate markets, we expect the current U.S. and Canadian economic slowdown, plus continued high mortgage levels and long-term interest rates (even with the current correction) has reduced the buoyancy of these markets. However we project an economic recovery beginning next year and we expect these markets will rebound farther and faster than most other markets. One effect of the slowdown will be to simply store up housing demand for a year which will require a stepped-up housing supply program in 1981 and beyond.

REAL ESTATE SALES

Land

The acquisition, development and sale of land for residential purposes has been a significant factor in terms of the Company's revenue and earnings growth. Since its inception, the Company had concentrated its land program in western Canada - Alberta and British Columbia - and has not entered eastern Canada, viewing these markets as slower growth potential and overly competitive. As stated previously, the Company diversified into the U.S. west coast in 1976 after these markets recovered from their 1974-1975 debacle. This strategy, combined with its already strong position in western Canada, has proven particularily successful as these markets have consistently been the "hottest" in North America. The growth in Daon's land revenues and operating earnings (estimated) has reflected this:

($ Millions)	1975	1976	1977	1978E	1979E	1980E	1981E
Land Revenues	35.7	34.0	60.2	86.0	120.0	120.0	185.0
Land Operating Earnings (E)	10.7	13.5	22.0	20.5	35.0	30.0	45.0

Profit contribution from the Company's U.S. land operations began in 1977, producing an estimated \$3-\$4 million in operating earnings on revenues of \$13-\$14 million. Based on acreage sold, this is believed to have risen substantially in 1978 with continued growth in 1979.

Note: 1978 operating earnings were reduced because among other reasons, certain lands in the Company's Canadian operations were sold to joint ventures at book cost. Aside from this, the Company's other Canadian operations have continued to do well, particularily "The Properties" development (1433 acres originally) in Calgary which was assembled in 1971-1973 and has yielded substantial profits.

Outlook:

We expect land revenues to be essentially flat in 1980 vis-a-vis 1979 levels. Lot sales should be higher but bulk acreage sold will be lower. Operating earnings are expected to be reduced reflecting a margin squeeze, particularily in the Company's U.S. operations.

Lot sales in Canada should total approximately 1300-1400 compared to 1080 in 1979, with Alberta accounting for approximately 900 lots ("The Properties": 500; "The Homesteads": 275, Edmonton: 125-150) and British Columbia ("Dilworth Mountain": 100-150; "Langley Meadows": 125+, Coquitlam: 100+) for the bulk of the balance. In the U.S., lot sales will likely total 1150-1250 lots versus 760 in 1979. While the Company has the potential to produce approximately 2000 lots in the U.S., demand has slowed significantly in the Company's major markets -California and Washington, the latter being doubly compounded by usury law (12%) limits and stricter buyer qualification requirements. The projected total in the U.S. will also be dependent upon the Company's completion of servicing the first phase (425 lots) of its "Shadow Ridge" (San Diego) development. If this is not completed by year-end, this would reduce estimated 1980 revenues by approximately \$11-\$12 million.

Bulk land sales (semi-serviced, industrial) in Canada are projected to amount to 275-300 acres in 1980 compared to 394 in 1979. Most of this will occur again in Alberta with approximately one-third coming from Norwester Phase II Industrial Park (Edmonton) and Horizon Industrial Park (Calgary). Bulk sales in the Company's U.S. operations (mostly California) will likely be in the 150-200 acres range compared to 380 acres in 1979. This reduction in bulk sales is reflective of the general slowdown in the California land markets.

Land operating earnings are expected to be reduced in 1980. On a segmented basis, the Canadian operations will continue to perform well as the Company is producing the last of its lots from "The Properties" which is high margin production. As well, the initial phase of "The Homesteads" should also yield high profits. The Company's U.S. operations, while expected to record more lot sales, will experience lower margins because of weaker demand and higher carrying costs. The reduction in bulk land sales, which are generally higher margin turnover, will also lead to lower operating profits.

In 1981, both land revenues and earnings are expected to rebound. Economic recovery and lower interest and mortgage rates should stimulate renewed housing demand. More importantly, the Company's Canadian operations will be highlighted by full scale production in "The Homesteads" (1100-1200 lots p.a.) development in Calgary, increased production (200 lots) in Edmonton and in its "Dilworth Mountain" (300-400 lots p.a.) development in Kelowna B.C. The U.S. side will also be highlighted by stepped-up

production in the Company's San Diego and Seattle developments. Other significant lot sales in 1981 include "Brookwood" and "Soboba Springs" (Los Angeles), "Brooktrails (Seattle)" and Woodhaven (Fort Worth, Texas). Combined U.S. lot sales could therefore exceed the 2000-2100 level. Bulk land sales should also recover in line with a general recovery in these markets. Operating margins, however, will likely lag the sales rebound. The reasons for this include a greater contribution from the U.S. where margins are generally lower. Also the majority of the Company's projects scheduled for production in 1981 represent more recently assembled developments with the consequent inventory effect on earnings from long-held assemblies (i.e. "The Properties") being reduced.

Housing

Daon's involvement in the sale of housing units dates back to its initial start-up, evolving from building new resource-based communities in western Canada to being the first to build condominiums in Canada (1967) to its current strategy of acquiring, renovating, converting and marketing existing residential complexes. (Daon no longer constructs housing units). Daon rapidly expanded its condominium conversion activities into the U.S., primarily California, Washington and Texas and more recently Florida. With a scaling down of its Canadian (British Columbia) operations, this expansion into the U.S. has been the principal reason for the rapid growth in housing revenues and operating earnings (estimated).

($ Millions)	1975	1976	1977	1978E	1979E	1980E	1981E
Revenues	32.8	61.4	54.1	123.0	230.0	275.0	310.0
Operating Earnings (E)	4.9	4.0	2.0	19.0	37.0	37.0	45.0

Contributions from the Company's U.S. operations (California) also began in 1977 and are believed to have accounted for virtually all of that year's estimated housing profits. The Company's Canadian operations (B.C.) produced a small loss while the remaining Canadian areas (Alberta) were modestly profitable. The substantial jump in both revenues and operating earnings through fiscal 1979 reflects the continued expansion (and turnover) by Daon into California, Washington, Texas with additional short-term turnovers in Arizona and New Mexico. Earnings from Canadian operations increased primarily as a result of B.C. operations becoming profitable but these remain small in relation to the total.

Outlook

We expect Daon's 1980 housing revenues to increase to approximately $275 million and operating earnings to be maintained at estimated 1979 levels. Margins will be lower reflecting a weakness in other than the Company's principal market - California. The market in Dallas has turned down significantly and Daon has been repurchasing condo units in three of its projects and is attempting to bulk sell another five conversion projects (400 units) to other developers. Also, the Company has scaled back two of its Seattle projects from marketing and retaining them within its income property portfolio. In total, U.S. operations are expected to sell approximately 3700-3800 units in 1980. By area; 400-500 units in Florida (a new area) 300 units in Seattle, 500 units between Washington D.C. and Chicago (new areas) and the balance (2200-2400 units) mainly from California. Canadian operations are expected to produce approximately 125 units (B.C. and Manitoba) in 1980 versus 850 in 1979, bringing total units sold to approximately 3900 compared to 3600 in 1979. Note: Bulk sales are not included in this forecast as these are regarded as Income Property sales.

With better economic conditions and lower interest and mortgage rates expected in 1981 the Company should achieve its basic marketing goal of selling and replacing 5000 units each year. This should push housing sale revenues in excess of $300 million p.a. California will continue to be the main area of activity but the Seattle projects should also be on stream. The Company is increasing its exposure in selected other markets elsewhere, particularily Florida. Operating earnings and margins should also improve given better market conditions.

Income Property Sales

The Company's strategy of continually realizing incremental cash flow is reflected in income property sales. Virtually any type of property held - shopping centres, office buildings, industrial buildings or apartment buildings - has and will continue to be sold.

($ Millions)	1975	1976	1977	1978E	1979E	1980E	1981E
Revenues	23.1	10.1	17.1	90.1	123.0	200.0	150.0
Operating Earnings (E)	1.4	0.5	2.5	7.5	19.0	25.0	20.0

Of particular note is the sharp increase in revenues from the sale of Income Properties during 1978-1979. This is indicative of the increased opportunities available to the Company as a result of its geographic diversification program and its willingness to capitalize on them. Note: 1979 operating earnings from income property sales showed a significant increase because the Company sold an 85% interest in a major office building (1166 West Pender, Vancouver), a 66 2/3% interest in its Langley shopping centre as well as several smaller strip shopping centres in Alberta, several of which were part of the Company's on-going land development programs.

Outlook

We expect revenues from the sale of income properties to rise sharply to the $200 million range with operating earnings showing a more modest increase. Slated to be sold this year are more than 40 buildings, mostly of the small industrial type, but including a first-time-ever public syndication of a prime commercial building (The Daon Centre, Vancouver). (In 1979 22 income property buildings were sold). However, at current interest rate levels, the Company will likely dispose of more property rather than encumber the assets at these high rates. Apart from the bulk sales (condos) in Dallas, these additional assets will likely include several apartment buildings currently carried in the income property portfolio. Operating earnings should also increase although this will on a year-over-year basis, be more modest. Last year's results included several lucrative sales involving major properties and will not be repeated to the same extent in 1980.

Income Properties

The development of Income Properties for retention and management is assuming a substantial importance in terms of the Company's asset deployment. This reflects the substantial cash profits the Company has realized from its other activities which are available for reinvestment in Income Properties as well as the Company's need to shelter (through capital cost and development allowances) these profits.

October 31 Assets ($ millions)	1975	1976	1977	1978	1979	1980E	1981E
Office Buildings	30.0	35.0	58.9	75.3	74.3	114.0	185.0
Shopping Centres	4.0	4.0	4.9	6.8	59.5	72.0	226.0
Industrial Buildings	4.4	5.7	15.4	5.7	11.3	18.0	25.0
Residential	27.3	42.9	106.2	133.0	198.2	240.0	260.0
	65.3	87.6	185.4	220.8	343.3	444.0	696.0

A list of major Properties under development with their respective operational dates and projected costs is provided at the end of this report.

Office buildings and residential units (apartments) buildings are the largest investments and make the greatest contribution to revenues. Accordingly, operating costs have been relatively high because these types of assets have the highest cost ratio per dollar of revenue relative to the other types of properties.

Revenues ($ Millions)	1975	1976	1977	1978	1979	1980E	1981E
Office	3.2	7.1	8.1	12.0	13.0	14.0	23.0
Shopping Centres	0.4	0.9	1.5	1.0	2.5	6.5	22.0
Industrial	0.5	0.7	0.9	2.0	2.2	2.5	3.5
Residential	0.9	5.3	10.4	16.9	18.0	29.0	35.0
	10.0	14.0	20.9	31.9	35.7	52.0	83.5
Operating Costs	4.1	6.4	10.4	17.0	19.2	29.0	43.0
Operating Profit	5.9	7.6	10.5	14.9	16.5	23.0	40.5

Outlook

Given the significant program of the projects currently under construction, we expect rental revenues to rise sharply over the next two years. Operating profits will follow in tandem with projected revenue increases. Shopping centres and office buildings will become major revenue producers with industrial buildings showing more modest gains. Residential revenues will likely "mature" around the $35 million range as the Company is expected to stabilize the number of units within its portfolio. Consequently, with lower relative contributions from residential units, operating costs as a percentage of revenues should decline modestly.

Other Income

Other income consists primarily of interest income on receivables and short-term investments, management fee income, gain on sale of market securities and investments and dividend income. Over the last several years, the Company has built up a significant reserve fund to meet cash needs in the event of a liquidity squeeze and concomitantly, this has led to a significant increase in interest income, now the major source of Other Income.

($ Millions)	1975	1976	1977	1978	1979	1980E	1981E
Other Income	1.2	3.7	3.4	7.6	20.1	45.0	30.0

At January 31, 1980, the Company had $148 million in cash and deposits which is yielding current money market interest rates. It is likely that the Company will draw down on this fund if any land, property, or other acquisitions are made. Additionally, the Company began fiscal 1980 with $119 million in mortgages and agreements for sale that bear an average interest rate of 11.5% of which approximately $80 million were due in 1980. Note: included in our 1980 estimate is a $7.9 million gain on sale of securities after-tax or $0.22 per share realized in the first quarter of 1980.

Summary and Projection of Net Income & Cash Flow

($ Millions)	1975	1976	1977	1978	1979	1980E	1981E
Revenues							
Sale of							
Land	35.7	34.0	60.2	86.0	120.0	120.0	185.0
Housing	32.8	61.4	54.1	123.2	235.0	275.0	320.0
Income Properties	23.1	10.1	17.1	99.0	123.0	200.0	150.0
	91.6	105.5	131.4	308.2	478.0	595.0	655.0
Operating Profit (E)							
Land	10.7	13.5	22.0	20.5	35.0	30.0	45.0
Housing	4.9	4.0	2.0	19.5	37.0	37.0	50.0
Income Properties	1.4	0.3	2.5	7.5	19.0	25.0	20.0
	17.0	17.8	26.5	47.5	91.0	92.0	115.0
Income Properties							
Rental Income	10.0	14.0	20.9	31.9	35.7	52.0	83.5
Rental Operating Profit	6.0	7.6	10.5	14.9	16.5	23.0	40.5
Total Operating Profit	23.0	25.4	37.0	62.4	107.5	115.0	155.5
Other Income	1.2	3.7	3.4	7.6	20.0	45.0	30.0
Total	24.2	29.1	40.4	70.0	127.5	160.0	185.5
Expenses							
Interest	6.9	7.8	12.4	22.9	31.6	61.0	64.0
General & Admin.	2.2	2.7	4.8	8.2	12.5	14.0	15.0
Depreciation & Amort.	0.5	0.6	1.0	2.1	2.6	4.0	8.0
Other	0.5	2.6	0.6	1.7	1.3	1.5	1.5
Income before Taxes	14.1	15.4	21.6	35.0	79.5	79.5	97.0
Taxes: Current	0.9	0.8	-	1.5	0.5	2.8	-
Deferred	6.5	6.8	11.0	16.8	35.2	33.0	43.5
Net Income	6.7	7.8	10.6	16.7	43.8	43.7	53.5
Preferred Dividends	-	0.5	0.5	0.5	2.9	4.0	4.0
Net Income - Common	6.7	7.3	10.1	16.2	40.9	39.7	49.5
Cash Flow - Common	13.9	14.7	23.3	35.2	78.7	76.7	101.0
Earnings per Share	0.16	0.19	0.28	0.45	1.10*	1.10	1.40
Cash Flow per Share	0.35	0.40	0.65	0.98	2.13*	2.15	2.80

* Restated for change in method of accounting for foreign exchange transactions.

OTHER EXPENSES

Interest Expense

Interest charges are expected to show a sharp rise in 1980 followed by a modest increase in 1981. This is a function of not only increased activity, particularily in income properties, but also interest rate levels, mortgage maturities and the structure of Daon's debt. With increased investment in income properties, interest charges expensed will rise. More importantly, with the rise in interest rates over the past year, the Company has deferred long-term financing of new properties. It would be uneconomic to undertake long-term mortgage financing at rates above 12 1/2% given current market rental rates. Consequently, the Company has maintained a high proportion of its debt relating to income properties and properties under development in the interim financing phase. (See Summary of Financial Position). Given mortgage rates are expected to remain above 12 1/2% over the short-term at least; this means interest expense will rise significantly. Mortgages that mature in 1980 amount to $57 million but the impact of this on interest expense will likely be reduced through long-term take-outs or the asset being sold (increased Income Property sales). A more modest increase in interest charges is expected in 1981. While there will be substantial increases in new income properties coming on stream and mortgage maturities amounting to $42 million, the Company's current debt structure works to its advantage. That is, as lower levels interest rate levels are realized, interest charges relating to the interim financing are reduced. This will offset most of the increase in charges from other areas. Also, this will allow the Company to complete less expensive long-term financing.

General and Administrative

General and Administrative expenses have risen sharply over the last two years not only because of increased activity but also because of a major organizational restrusturing designed to fit both the Company's geographical and product diversity. With this management structure now in place, we expect more modest increases in the future.

Depreciation and Amortization

With the significant increase in income properties expected to come on stream over the next two years, depreciation expenses will rise accordingly.

1980 First Quarter Results

Daon reported first quarter 1980 results for the three month period ending January 31, 1980 of $0.38 per share versus $0.29 per share for the same period in the previous year. Real Estate Sales revenues amounted to $98 million (versus $112 million) of which an estimated $70 million related to the sale of housing units (1310 units sold). Operating margins were also reduced (17% versus 22%) reflecting writedowns on some of the Company's Dallas projects (approx. $4.8 million) and is also indicative of the squeeze on margins. Included in these results were $0.22 per share net income as a result of the gain on sale of securities.

Summary of Financial Position

($ Millions)	Jan. 31	October 31				
	1980E	1979	1978	1977	1976	1975
ASSETS						
Properties						
Income Producing:	NA	343.2	220.8	185.5	87.5	61.9
Properties under develop.	NA	298.3	201.8	138.7	NA	NA
Properties held for future development	NA	203.1	60.9	60.9	NA	NA
Total Properties	1,105.6	844.6	483.5	385.1	230.1	179.7
Cash/Term Deposits	147.9	145.7	39.9	6.0	1.7	3.6
Marketable Securities	0.0	12.3	0.0	0.0	0.0	0.0
Investments	15.8	28.7	13.9	12.5	0.0	3.6
Accounts Receivable	156.6	177.8	108.2	57.6	36.0	22.0
Other	15.1	13.1	8.0	3.0	1.7	1.1
TOTAL ASSETS	1,441.0	1,222.4	653.6	464.3	278.2	210.0
LIABILITIES						
Debt on Properties						
Income Producing long-term	NA	158.9	110.9	133.5	69.2	47.8
Interim	NA	117.1	59.3	18.4	5.9	3.6
Properties under Development						
Long-term	NA	60.5	15.6	NA	NA	NA
Interim	NA	159.0	112.3	NA	NA	NA
Properties held for future Development						
Long-term	NA	103.5	103.5	30.9	NA	NA
Interim	NA	75.2	7.4	NA	NA	NA
Total Debt on Properties						
Long-term	NA	322.9	157.4	217.9	109.6	73.3
Interim	NA	351.3	179.0	106.6	64.5	59.0
	878.4	674.2	336.4	324.5	174.1	132.3
Debentures	127.2	129.6	71.7	42.1	25.3	11.6
Other Secured Liabilities	129.2	108.3	61.5	31.6	14.1	12.6
Total Debt	1,134.8	912.1	469.6	398.3	213.5	156.5
Accounts Payable	83.6	99.9	60.6	29.1	23.0	19.0
Deferred Taxes	90.3	86.3	51.1	34.2	22.0	15.2
TOTAL LIABILITIES	1,308.7	1,098.3	581.2	430.0	252.5	190.7
SHAREHOLDERS EQUITY						
Preferred Stock	39.0	39.5	26.0	1.0	1.0	1.0
Common Stock (*)	0.7	0.7	1.2	2.3	3.1	3.9
Retained Earnings	92.6	83.0	45.1	31.0	21.5	14.4
Total Equity	132.3	124.2	72.3	34.3	25.6	19.3
Total Debt to Equity (Book)	8.6x	7.3x	6.5x	11.6x	8.3x	8.1x
Total Debt to Equity (Including Appraisal Surplus After-Tax)	NA	2.9x	2.5x	4.1x	2.8x	NA

(*) Net of repurchases

Notes: Because of a change in Daon's method of reporting its Properties, Properties under Development and Properties held for Future Development are not available for 1975-1976. Properties under Development for 1977-1979 includes:

Properties under Development ($ Millions)	1979	1978	1977
Income Properties	101.7	86.9	42.6
Housing	108.2	56.6	39.3
Land	88.4	58.3	56.8
	298.3	201.8	138.7

Properties held for Future Development relates almost entirely to land.

Long-term financing includes long-term take-out commitment.

The other significant points to note are:

(1) The substantial increase in the Company's Cash and Term Deposit position. This provides the Company with sufficient liquidity if monetary conditions tighten, as well as ample cash to take advantage of potential property acquisitions.

(2) The significant increase in the amount of Interim Financing used, particularly in Properties under Development. As explained above, this will have a negative impact on current earnings because the Company will be forced to maintain the financing in the short-term phase. As lower interest rates are realized, this will have a beneficial effect in 1981.

(3) Total Debt to Equity on a book basis appears high but after inclusion of Appraisal Surplus (After-Tax), this ratio declines to reasonable levels.

Sources and Uses of Funds

Sources ($ Millions)	1979	1978	1977	1976	1975	4 year Log Linear Growth (%)
Internal						
Cash Flow from Operations	81.9	35.8	23.8	15.2	13.7	55.8
Net Source (Use) from Change in Amounts Receivable versus Accounts Payable	(30.3)	(23.0)	(15.3)	(7.7)	(10.2)	38.7
Sub Total	51.6	12.8	8.5	7.8	3.5	80.0
Cash Recovered through Sale of Property Net of Debt Discharged	137.6	66.0	38.4	14.9	22.9	-
Total Sources - Internal	189.2	78.8	46.9	22.7	26.4	67.9
Uses						
Investment in Properties (Gross)	749.8	357.9	252.0	139.3	89.2	68.2
Other	33.2	4.7	13.8	0.6	(1.2)	-
Dividends	5.2	1.5	1.1	0.5	0.5	78.3
	788.2	364.1	266.9	140.4	88.5	70.3
Net Cash Required from External Financing	599.0	285.3	220.0	117.7	62.1	71.9
External Financing						
Mortgage Debt or Properties (Gross)	587.1	237.3	191.8	101.0	62.5	70.5
Debentures (Net of Redemptions)	57.9	28.3	16.0	13.2	0.3	-
Share Issues (Net of Open Market purchases)	13.0	22.9	(0.8)	(1.0)	0.1	-
Other Secured Debt	46.8	30.2	17.1	2.7	2.1	136.8
External Financing - Total	704.8	318.7	224.1	115.9	65.0	78.2
Increase (Decrease) in Cash and Term Deposits	105.8	33.4	4.1	(1.8)	2.9	-

Note: Daon is unique among real estate companies and reports separately the "free" cash flow generated from the sale of an asset - ie the cost the asset less the related debt discharged as a result of the sale. Including this "free" cash flow then, a more accurate total for internal sources of cash flow can be derived.

The important points to note are:

(1) The Company has been able to leverage its total internal cash flow by approximately 3x-4x - ie total debt raised divided by total internal cash flow. This is a primary reflection of the Company's rising appraisal surplus. (See note 3, Page 13.)

(2) The Company has made increasing use of non-mortgage-type financing - ie preferred shares and debenture issues. This provides new sources of capital for the Company to finance future growth.

Dividends

Daon's stated policy is to pay out a minimum of 10% of the prior year's net earnings in the form of common share dividends. Currently, the common divided is $0.12 p.a. and based on our 1980 earnings estimate, we do not expect this to rise over the short-term.

Share Purchase Program

Daon allocates approximately 10% of its prior year's earnings to the purchase of its common stock in the open market. This will continue with such repurchases taking place between the release of its quarterly or annual report and the end of the quarter in which the report is released - ie towards the latter half of each of the Company's fiscal quarters. Based on 1979 net earnings, approximately $4.4 million will be allocated to the Share Repurchase Program. After first quarter 1980 allocations of $0.5 million, this leaves $3.9 million available for repurchase. At the current market price ($7.00 - TSE), this implies a ready market for 560,000 shares.

Capitalization

The common shares of the Company have been rapidly increased principally through the use of stock splits as indicated in the table below.

Shares Outstanding - October 31

(millions)	Issued	Held by Daon Subsidiary	Net Outstanding	($) Volume Traded	Share Volume Traded
Feb. 7, 1980	39.53	3.47	36.06		
1979	19.76	1.70	18.06	70.3	10.6
1978	9.76	0.79	8.97	17.4	3.2
1977	4.84	0.33	4.51	7.3	1.2
1976	2.38	0.12	2.26	4.4	1.0
1975	2.36	-	2.36	3.5	0.8

Mr. J.W. Poole, President and Chief Executive Officer of Daon owns 8.1 million shares and Mr. G.R. Dawson, Chairman of the Company owns 6.8 million shares. Other officers, directors and affiliates of the Company combined own 4.6 million shares which represents in total 54% of the total shares outstanding after allowance for shares held by the subsidiary. This leaves a net float of approximately 16.6 million shares, the largest of any public real estate Company in North America.

Evaluation

The following tables detail Daon's historical price to earnings and cash flow multiples and share price to break-up value.

Price Multiples

	Price			EPS	CFPS	P/E		P/CFPS	
	High	Low				High	Low	High	Low
1975	$ 0.33	$0.19		0.16	0.35	2.0x	1.2x	0.9x	0.4x
1976	0.52	0.30		0.19	0.39	2.7x	1.6	1.3	0.8
1977	1.62	0.44		0.28	0.65	5.8	1.6	2.5	1.6
1978	3.62	1.47		0.45	0.98	8.0	3.3	3.7	1.5
1979	10.37	2.69		1.14	2.20	9.1	2.4	4.7	1.2
1980 to date	7.75	4.80		1.10	2.15	7.1	4.4	3.6	2.2
Current	$7.00		1980	$ 1.10E	$ 2.15E	6.3x		3.3x	
			1981	$ 1.40E	$ 2.80E	5.0x		2.5x	

Share Price to Break-Up Value

	Price		Break-up Value Per Share	Price/Break-up Value	
	High	Low		High	Low
1976	$ 0.52	$0.30	2.03	25%	15%
1977	1.62	0.44	2.58	63	17
1978	3.62	1.47	4.34	83	34
1979	10.37	2.69	7.54	137	36
1980 to date	7.75	4.80	$9.00*	86	53
Current	$7.00		$9.00*	80	

(*) Estimate 1980 year-end.

Break-up Value

We believe the Break-up Value (after-tax) of Daon will increase by at least 20% for the following reasons:

Land

(1) Advancement in the development and approval process of Daon's land assemblies. To illustrate how this increases the appraisal value, an example of a successful land development is provided.

Assumptions - Land Assembly - 1000 acres.

Case I: No development planned. In this case, the value of the land is the current market value, say $30,000 or $30,000,000 in total.

Case II: 100 acres are planned for development and sale 1 year hence. In this case, the value of the land is determined by 2 methods.

(1)	Value of remaining 900 acres: Market valuation (as before): 900 acres x $30,000/acre	 $27,000,000
(2)	Value of 100 acres under development: Residual Value Method.	

Expected Selling Price/Lot 1 year hence:	$ 30,000
Number of Lots 3/acre x 100	300x
Total Sales	$ 9,000,000
Discount Factor	20%
Total Sales Present Value	7,500,000
Less: Developers Expected Profit (15% margin)	1,350,000
Sub Total	$ 6,150,000
Cost to complete servicing	3,000,000
Value of land under development	3,150,000
Value of land if not developed ($30,000/Acre)	3,000,000
Increase in Appraisal Value	$ 150,000

Note: a) The Developer's profit is deducted to allow for any additional risk in the process.

In this example, we have used a 20% discount factor reflective of the risk factors involved in land development one year hence and the time cost of financing such a development. However, as this development approaches maturity and sale, we believe this discount factor would be lowered as the uncertainties regarding the eventual sale (ie. sales agreements are lined up) are reduced. If for example, a 15% discount factor is used, the Increase in Appraisal Value would rise to $480,000 an increase of 320%.

Also, we have not included the effects of inflation in this analysis. If, for example, the selling price of the lots increased by 10% (ie. $33,000/lot) and even allowing for a faster rate of increase in the servicing costs, say 15%, (ie. $3,450,000) the Increase in

Appraisal Value would rise to $310,000 at a 20% discount factor and to $630,000 at a 15% discount factor. At the least possible, this sort of Increase in Appraisal Value would be relevent in the second year of development (ie. the next 100 acres). That is, through the effects of general inflation advancement in the development process the Increase in Appraisal Value tends to rise.

We believe this type of analysis is relevant in terms of estimating the growth in Daon's Appraisal Value. We note, in particular that 3 of Daon's major land assemblies - "The Homesteads", "Harbour Pointe" and "Shadow Ridge" - will be reaching full scale lot production in 1981. Consequently, whereas these assemblies were previously valued in terms of existing unserviced land-values, they will increasingly be valued in terms of the discounted value of the lot production. This combined with a general increase through inflation will provide a substantial increase in the Company's Appraisal Value.

Income Properties

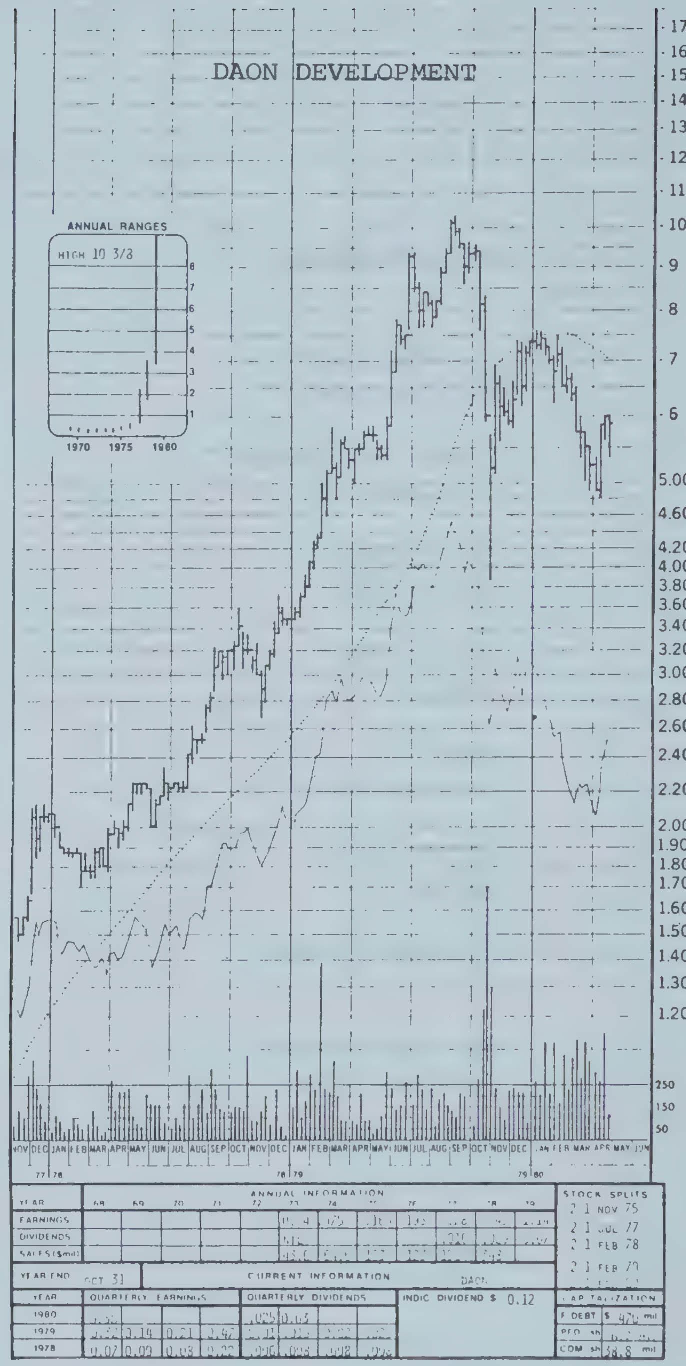
Advancement in the development of Daon's Income Properties. Of particular note in this category, is the development in the Company's three regional shopping centres in Alberta. At the end of fiscal 1979, these three properties were effectively valued as raw land but now with construction nearing substantial completion, anchor and retail tenants in place, these properties will be valued in terms capitalized cash flow. Including the concomitant increase in value in Daon's land surrounding these centres, these properties will add approximately $25 million after-tax ($0.70 per share) to Appraisal Value. In addition, through rent increases and renewals (which will have an increasing impact), Daon's office building portfolio should record higher value.

Residential Properties

This is the one area which we believe will slow in terms of appraisal surplus growth. Where these properties are slated for conversion and sale, they are generally valued in a similar manner to land under development. Consequently, with the general slowdown in these markets, we expect appraisal growth will also slow. Where these properties are retained, within the income property portfolio, they are valued in terms of capitalized cash flow. We estimate that Daon's net cash flow from such properties is low and with little prospect that this will increase (mortgage rates must decline to below 10%), we expect only a modest increase at best in this area. After allowing for this slower growth in Residential Properties, we continue to expect at least a 20% improvement in Appraisal Surplus to $9.00 per share (after-tax), given expected growth in value from the Company's other asset categories.

Daon Common Stock Comment

As indicated in the Chart opposite, Daon's stock volume traded/price movement relationship shows a fairly consistent inverse relationship to price appreciation. That is, as Daon's common stock appreciates, volume traded (supply) tends to contract significantly. In fact, volume traded (supply) only increases during plateau or down turn periods in stock price. Accordingly, we strongly suggest that if investors wish to build positions in Daon, purchases should commence immediately and be increased particularily if price weakness should develop because of poor general market performance.



"Courtesy of Canadian Industrial Stock Charts".

Summary and Conclusion

We consider Daon attractive for long-term investment at current levels. The Company's current financial position can withstand any financial squeeze and allow it to taking advantage of any attractive real estate investments that may appear. The Company's management and corporate strategy of recognizing and capitalizing on opportunities is proven. More importantly, the Company currently has in place major investments in long-term real estate markets that will yield continued and consistent long-term profit growth. At current levels, Daon common stock is trading in the mid-to-lower multiple range based on historic norms, particularily in terms of the Company's 1981 profit potential. We recommend investors begin to build initial positions and would strongly suggest further accumulation of the stock should it weaken because of poor general market performance.

SCHEDULE OF MAJOR INCOME PROPERTY

	Rentable (000 sq. ft.)	Estimated Total Project Cost ($ Millions)	Operational Date
Office Buildings			
444 Market Street San Francisco **	589	60.0	Sept. 1980
Burrard & Hastings Vancouver (1)	207	25.0	Sept. 1980
Chevron Plaza Calgary (2)	267	25.0	Early 1981
8th & Olive Seattle	262	27.0	Early 1981
Pacific II San Francisco **	213	25.0	Mid 1981
Capital Place Sacramento	221	22.0	Late 1981
Shopping Centres			
Northgate Square I Northbay **	283	13.0	Sept. 1980
Bower Place Red Deer	420	35.0	April 1981
Heritage Mall Edmonton	795	70.0	August 1981
Sunridge Mall Phase I Calgary	650	60.0	Sept. 1981

(1) Co. has publicly sindicated 50% of this building
(2) Co. has agreed to sell 50% interest

** 50% interest

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The securities offered for sale through this prospectus may only be lawfully offered for sale in those jurisdictions in which this prospectus has been accepted for filing and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

New Issue

DAON

Daon Development Corporation

$50,000,000

10¾% Convertible Subordinated Debentures

(unsecured)

To be dated February 24, 1981 — To mature January 31, 2001

Conversion Privilege

Each Convertible Debenture will be convertible into Common Shares of Daon Development Corporation at the option of the holder at any time on or before January 31, 1991 at a conversion price of $15.00 per Common Share. Convertible Debentures called for redemption prior to January 31, 1991 will be convertible on or prior to the last business day preceding the date specified for redemption.

In the opinion of counsel, the Convertible Debentures will qualify for investment under certain statutes as set out under "Eligibility for Investment".

Price: 100 plus accrued interest, if any

We, as principals, conditionally offer the Convertible Debentures, subject to prior sale, if, as and when issued by Daon Development Corporation and accepted by us in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of Daon Development Corporation by Shrum, Liddle & Hebenton, Vancouver and on our behalf by Lawson, Lundell, Lawson & McIntosh, Vancouver.

	Price to Public (1)	Underwriting Commission	Proceeds to the Company (1)(2)
Per Unit	100.00%	3.15%	96.85%
Total	$50,000,000	$1,575,000	$48,425,000

(1) Plus accrued interest, if any, from February 24, 1981 to the date of delivery.
(2) Before deducting expenses of the issue, estimated at $250,000.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Convertible Debentures will be available for delivery on or about February 24, 1981.

February 2, 1981

McLEOD YOUNG WEIR LIMITED

TORONTO MONTREAL VANCOUVER WINNIPEG CALGARY EDMONTON OTTAWA HAMILTON LONDON KITCHENER
QUEBEC WINDSOR HALIFAX REGINA VICTORIA SHERBROOKE KINGSTON SAINT JOHN CHICOUTIMI ST. JOHN'S
NEW YORK LONDON ZURICH

THE COMPANY

The business of the Company is the investment in and development of real estate in Canada and the United States. The Company concentrates on three development activities, namely: the development of income properties including office buildings, shopping centres, industrial/commercial centres and recently, hotel properties; the acquisition, development, rental and resale of residential housing, primarily as condominiums and co-operatives; and the acquisition, development and sale of land.

Five Year Financial Highlights

	Years ended October 31,				
	1980	1979	1978	1977	1976
	(dollars in thousands except per share amounts)				
OPERATING RESULTS					
Total revenue	$ 697,961	$ 531,236	$ 347,576	$ 155,307	$ 123,176
Real estate sales	608,948	477,955	308,172	131,453	105,483
Rental revenue	45,103	35,662	31,888	20,873	13,958
Net income	51,340	42,203	15,482	10,340	7,772
Cash flow	91,224	78,974	33,394	22,261	15,259
Earnings per Common Share (1)	1.32	1.10	0.42	0.27	0.19
Cash flow per Common Share (1)	2.43	2.12	0.91	0.60	0.40
FINANCIAL PERFORMANCE					
Total assets	1,674,218	1,221,662	653,622	464,306	278,161
Appraisal surplus (2)	466,667	371,649	219,198	126,495	104,115 (4)
Shareholders' equity:					
At book value	159,183	121,003	70,935	34,110	25,589
At net market value (3)	393,697	312,658	183,196	96,664	77,647 (4)
Net market value of assets per Common Share (1)(3)	9.81	7.46	4.30	2.58	2.03 (4)
Total liabilities/shareholders' equity:					
At book value	9.52X	9.10X	8.21X	12.61X	9.87 X
At net market value (3)	4.44X	4.13X	3.79X	5.10X	3.92 X(4)

Common Share Trading Data (1)(5)

	Years ended December 31,				
	1980	1979	1978	1977	1976
PRICE RANGE					
High	$ 12.50	$ 10.375	$ 3.75	$ 2.125	$ 0.562
Low	4.80	3.50	1.719	0.539	0.383
TRADING VOLUME					
Number of shares	12,293,600	11,281,800	6,137,200	6,948,000	5,457,600
Dollar value	$99,188,000	$72,210,000	$15,767,000	$7,987,000	$2,536,000

NOTES:

(1) Adjusted for subdivisions of Common Shares; see Note 8 under "Consolidated Capitalization".

(2) Appraisal surplus is the aggregate of the excess (or deficiency) of the market value of each real estate property held by the Company over its net book value.

(3) Shareholders' equity at net market value is the total of shareholders' equity at book value, appraisal surplus and the excess (or deficiency) of the quoted market values of marketable securities and investments owned by the Company over their cost, less estimated income taxes.

(4) This amount is based upon shareholders' equity as at October 31, 1976 and the appraisal surplus as at January 31, 1977.

(5) The price range, trading volume and dollar value for the Common Shares is as reported by The Toronto Stock Exchange.

10¾% CONVERTIBLE SUBORDINATED DEBENTURES, DUE JANUARY 31, 2001

AMOUNT:	$50,000,000
PRICE:	100 plus accrued interest, if any.
INTEREST:	Payable semi-annually on January 31 and July 31.
CONVERSION:	Each Convertible Debenture will be convertible into Common Shares of Daon Development Corporation at the option of the holder at any time on or before January 31, 1991 at a conversion price of $15.00 per Common Share (66⅔ Common Shares per $1,000 Convertible Debenture).
REDEMPTION:	Not redeemable on or prior to January 31, 1982. Redeemable in each 12 month period set forth below, if the Common Shares trade in such 12 month period at the percentages of the conversion price set forth in respect of each such 12 month period, as follows:

in the 12 month period ending	percentage of conversion price
January 31, 1983	150%
January 31, 1984	140%
January 31, 1985	130%
January 31, 1986	120%

Redeemable at any time after January 31, 1986.

The redemption price declines from 110.15% in 1982 to par in 2000.

SINKING FUNDS:	Mandatory: 1992-2000, 5% per annum of the amount outstanding on February 1, 1991. Optional: 1992-2000, up to 2% per annum of the amount outstanding on February 1, 1991.
INTEREST COVERAGE:	After giving effect to this issue, 1.49 times interest on all debt for the year ended October 31, 1980 and 12.04 times interest on the Convertible Debentures for the year ended October 31, 1980.
ASSET COVERAGE:	After giving effect to this issue, asset coverage as at October 31, 1980 is as follows:

	for each $1,000 of long-term debt	for each $1,000 of Convertible Debentures
With net appraisal surplus and with deduction of deferred income taxes	$2,415	$8,777
Without net appraisal surplus and without deduction of deferred income taxes	$1,766	$5,212
Without net appraisal surplus and with deduction of deferred income taxes	$1,562	$4,087

SECURITY AND PRIORITY:	Unsecured and subordinated.
USE OF PROCEEDS:	To be added to the working capital of the Company and used to reduce or retire indebtedness having higher interest rates or used for the acquisition and development of real estate and, until so used, the net proceeds may be invested in marketable securities.
ELIGIBILITY:	Eligible for investment under the Canadian and British Insurance Companies Act and certain other statutes.

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All amounts in this prospectus are expressed in Canadian dollars, unless otherwise indicated. See paragraph K under "Summary of Significant Accounting Policies".

THE COMPANY

Daon Development Corporation was incorporated under the Company Act (British Columbia) on November 19, 1964 by certificate of incorporation. The head office and principal operating office of Daon Development Corporation is at 6th Floor, 999 West Hastings Street, Vancouver, British Columbia.

The following chart of corporate relationships includes all material subsidiaries of the Company. The jurisdiction of incorporation and principal business is shown beneath the name of the Company and each subsidiary. Each subsidiary is wholly-owned.

Daon Development Corporation
(British Columbia)
Canadian real estate operations

100%

Daon (Netherlands) B.V.
(Netherlands)
Holding company and
financial services

100%

Daon Corporation
(Delaware)
United States real estate operations

In this prospectus, unless the context otherwise indicates, the "Company" includes Daon Development Corporation, its wholly-owned subsidiaries and their respective interests in joint ventures and partnerships and "Daon" refers to Daon Development Corporation.

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares of Daon are listed and traded on the Vancouver, Alberta, Toronto and Montreal stock exchanges. The following table sets forth the high and low sale prices and trading volume and dollar value for the Common Shares on The Toronto Stock Exchange as reported by such Exchange (adjusted to give effect to the July 15, 1977, February 10, 1978, February 23, 1979 and February 7, 1980 subdivisions of the Common Shares referred to in Note 8 under "Consolidated Capitalization") for the periods indicated:

		Price Range		Trading Volume	
	Calendar Period	High ($)	Low ($)	Shares	Value ($)
1976	First Quarter	0.523	0.383	2,014,400	891,149
	Second Quarter	0.523	0.414	1,620,800	773,766
	Third Quarter	0.500	0.414	801,600	365,005
	Fourth Quarter	0.562	0.438	1,020,800	506,076
1977	First Quarter	0.727	0.539	1,494,400	936,214
	Second Quarter	1.141	0.688	1,731,200	1,594,468
	Third Quarter	1.500	0.953	2,004,000	2,337,832
	Fourth Quarter	2.125	1.453	1,718,400	3,118,010
1978	First Quarter	2.062	1.719	916,800	1,711,009
	Second Quarter	2.344	1.906	1,694,400	3,554,971
	Third Quarter	3.250	2.188	1,856,000	5,075,440
	Fourth Quarter	3.750	2.688	1,670,000	5,426,002
1979	First Quarter	5.875	3.500	2,778,400	12,468,620
	Second Quarter	9.375	5.125	1,741,200	11,918,077
	Third Quarter	10.375	7.688	2,221,200	19,541,036
	Fourth Quarter	9.625	4.375	4,541,000	28,282,196
1980	First Quarter	7.625	4.900	4,268,000	27,646,473
	Second Quarter	8.125	4.800	3,024,300	19,585,535
	July	11.000	7.875	1,949,100	19,570,832
	August	11.000	9.750	728,700	7,471,900
	September	11.000	9.625	724,900	7,433,206
	October	11.250	9.250	567,700	5,850,782
	November	12.500	10.000	607,800	6,853,920
	December	12.250	10.250	423,100	4,775,765
1981	January	12.875	11.625	373,300	4,581,983

On January 30, 1981, the closing sale price of the Common Shares on The Toronto Stock Exchange was $12.00.

The Company has an ongoing policy, adopted in 1977, to utilize approximately 10% of the Company's prior year's net income for the purchase of the Common Shares of Daon on the open market; see "Common Share Purchase Program".

DIVIDEND RECORD

The following table shows the dividends paid on the Preference Shares, Series A and Series B, the Class A Shares and the Common Shares of Daon:

	Years ended October 31,				
	1980	1979	1978	1977	1976
Dividend per Preference Share, Series A	$0.8625	$0.87432	$ —	$ —	$ —
Dividend per Preference Share, Series B (1)	1.0061	—	—	—	—
Dividend per Class A Share	0.75	0.75	0.75	0.75	0.75
Dividend per Common Share (1) (2)	0.12	0.07	0.02875	0.01625	—

NOTES:

(1) Holders of these shares may elect to receive dividends in the form of additional Common Shares in lieu of cash dividends.

(2) Adjusted to give effect to the subdivisions of the Common Shares referred to in Note 8 under "Consolidated Capitalization".

On December 15, 1980, the Directors of Daon declared a dividend of $0.215625 per Preference Share, Series A, $0.2375 per Preference Share, Series B, $0.1875 per Class A Share and $0.035 per Common Share.

The Company's policy, adopted in 1977, is to pay out a minimum of 10% of the Company's prior year's net earnings as dividends on the Common Shares.

APPRAISAL SURPLUS OF THE COMPANY

Each of the real estate properties held by the Company as at October 31, 1980, 1979, 1978 and 1977 and as at January 31, 1977, respectively, was appraised at its market value as at such dates by qualified independent real estate appraisers. Beginning in 1978, these appraisals have been made under the co-ordination of A. George Oikawa, F.R.I., A.A.C.I., R.I. (B.C.) who is the "appraisal co-ordinator" under the special rights or restrictions attaching to the Preference Shares, Series A and Series B of Daon. No single appraiser has provided or is permitted to provide appraisals accounting for more than 10% of the aggregate net book value of all the real estate properties of the Company (except the appraisal co-ordinator or in the case of a single project accounting for more than 10% of such aggregate net book value). In 1980, appraisers from 26 appraisal firms provided appraisals to the Company which were used in the determination of the appraisal surplus for that year. Mr. Oikawa approves each appraiser and reviews each appraisal to determine whether the procedures used by the appraiser are appropriate.

For the purposes of each appraisal, market value is defined as the highest price in terms of money which the Company's interest in the property would bring if exposed for sale in the open market in the course of an orderly sale, allowing a reasonable time to find a purchaser with knowledge of the uses to which the property is adapted and for which it is capable of being used, taking into account the effect upon such value of any encumbrances against the property (without deduction of the principal amount thereof).

Based on these appraisals, appraisal surplus, shareholders' equity at net market value and net market value of assets per Common Share as at October 31, 1980, 1979, 1978, 1977 and 1976 were as follows:

	October 31,				
	1980	1979	1978	1977	1976 (4)
	(in thousands of dollars except per share amounts)				
Appraisal surplus (1)	$466,667	$371,649	$219,198	$126,495	$104,115
Shareholders' equity at net market value (2)	393,697	312,658	183,196	96,664	77,647
Net market value of assets per Common Share (2) (3)	9.81	7.46	4.30	2.58	2.03

NOTES:

(1) "Appraisal surplus" is the aggregate of the excess (or deficiency) of the market value of each real estate property held by the Company over its net book value.

(2) "Shareholders' equity at net market value" is the total of shareholders' equity, appraisal surplus and the excess (or deficiency) of the quoted market values of marketable securities and investments owned by the Company over their cost, less estimated income taxes that would be payable on an amount of income equal to such appraisal surplus and such excess assuming no reinvestment of such amount.

(3) Adjusted to give effect to the subdivisions of Common Shares referred to in Note 8 under "Consolidated Capitalization". The amount for 1980 has been calculated on a fully diluted basis (other than dilution resulting from the conversion of the Convertible Debentures).

(4) The amount is based upon shareholders' equity as at October 31, 1976 and the appraisal surplus as at January 31, 1977.

(5) The preceding amounts are the sum totals of the individual properties. No assumption has been made with respect to a sale of all or groups of properties as an entirety. The foregoing amounts are not "Appraisal Surplus" or "Aggregate Appraisal Surplus" as to be defined in the Indenture under which the Convertible Debentures will be issued. Certain adjustments are made to the appraisal surplus shown in the above table in order to determine "Appraisal Surplus" and "Aggregate Appraisal Surplus" for purposes of such Indenture.

Since October 31, 1980 the Company has acquired additional properties, further developed some properties and sold others.

CONSOLIDATED CAPITALIZATION

Designation of Security	Authorized or to be authorized	Outstanding as of October 31, 1980	Outstanding as of December 31, 1980	Outstanding as of December 31, 1980 after giving effect to this financing
DEBT OF DAON DEVELOPMENT CORPORATION		(dollars in thousands)		
Bank indebtedness (1)		$ —	$ 29,479	$ 29,479
Debt on properties				
Income producing properties		115,637	110,424	110,424
Properties under development (2)		112,293	135,104	135,104
Properties held for future development (2)		163,098	156,550	156,550
Debentures (3)				
9¾% Series C	$ 10,000	7,803	7,540	7,540
11½% Series E	15,000	14,278	14,166	14,166
11¼% Series F	18,000	17,397	17,208	17,208
11% Series G	15,000	14,225	14,151	14,151
11¼% Series H	15,000	14,226	14,205	14,205
Floating Rate Series I	10,000	9,875	9,750	9,750
Floating Rate Series J	7,500	7,500	7,500	7,500
Floating Rate Debenture (4)	10,000	10,000	—	—
10¾% Convertible Subordinated Debentures (this issue)	50,000	—	—	50,000
Other		69,256	66,557	66,557
DEBT OF DAON CORPORATION				
Bank indebtedness (5)		—	4,937	4,937
Debt on properties				
Income producing properties (2)		204,950	201,768	201,768
Properties under development (2) (6)		246,593	252,782	252,782
Properties held for future development (2) (6)		87,042	98,788	98,788
Floating Rate Subordinated Debenture, Series A (7)	50,000 (U.S.)	58,800	59,665	59,665
Other		97,693	82,852	82,852
CAPITAL STOCK(8)				
Preference Shares (par value $10, issuable in series)	10,000,000 Shs.			
8⅝% Preference Shares, Series A	2,500,000 Shs.	2,371,600 Shs. ($23,716)	2,352,100 Shs. ($23,521)	2,352,100 Shs. ($23,521)
9½% Preference Shares, Series B	1,500,000 Shs.	1,465,900 Shs. ($14,659)	1,454,900 Shs. ($14,549)	1,454,900 Shs. ($14,549)
Class A Shares without par value	2,000,000 Shs.	641,076 Shs. ($ 1,044)	641,076 Shs. ($1,044)	641,076 Shs. ($1,044)
Common Shares without par value	80,000,000 Shs.	39,583,738 Shs. ($ 5,765)	39,583,738 Shs. ($5,765)	39,538,738 Shs. ($5,765)

NOTES:

(1) Substantial amounts are advanced to Daon from time to time under its operating lines of credit with its bankers. These amounts are repayable on demand and are secured by a floating charge on the assets of Daon (other than shares of, and indebtedness owing to Daon by, subsidiaries) which ranks prior to the floating charges referred to in Notes 3 and 4.

(2) These are, in the case of residential properties and properties under development, interim mortgages of properties that are being developed or held for sale and which will be refinanced when the properties are developed or which, at the time of sale, will either be repaid from the sale proceeds or assumed by the purchaser.

(3) Debentures may be issued without limitation as to aggregate principal amount subject to the restrictions contained in the trust indenture pursuant to which they are issued. These debentures are secured by a floating charge on the assets of Daon which ranks subsequent to the floating charge referred to in Note 1 and, in respect of the assets of Daon other than "improved properties" and shares of, and indebtedness owing to Daon by, subsidiaries, the floating charge referred to in Note 4 but, in respect of "improved properties" and shares of, and indebtedness owing to Daon by, subsidiaries, prior to the floating charge referred to in Note 4.

(4) This is a single debenture creating a floating charge on the assets of Daon (other than shares of, and indebtedness owing to Daon by, "foreign subsidiaries") which ranks subsequent to the floating charge referred to in Note 1 and, in respect of "improved properties" and shares of, and indebtedness owing to Daon by, subsidiaries, the floating charge referred to in Note 3 but, in respect of all other assets, prior to the floating charge referred to in Note 3.

(5) Amounts are advanced to Daon Corporation from time to time under its operating line of credit with its banker. These amounts are repayable on demand, rank prior to the Floating Rate Subordinated Debenture, Series A and are guaranteed by Daon.

(6) A substantial portion of this debt is guaranteed by Daon.

(7) This debenture is an unsecured obligation of Daon Corporation. Daon has agreed to purchase this debenture at the request of the holder or under certain conditions by November 1, 1981.

(8) On November 21, 1975, Daon reorganized its capital stock by increasing its authorized capital. Shareholder elections resulted in the conversion of the former shares of Daon into 2,366,423 new Common Shares and 674,817 Class A Shares. On July 15, 1977, February 10, 1978, February 23, 1979 and February 7, 1980 Daon subdivided its Common Shares on a two-for-one basis and on February 7, 1980 it increased its authorized capital to 80,000,000 Common Shares.

Common Shares shown as outstanding at October 31, 1980 and December 31, 1980 include 3,940,000 Common Shares owned by a wholly-owned subsidiary of Daon on such dates.

At October 31, 1980, 859,400 Common Shares were reserved for stock options.

In addition to the stated dollar value of capital stock, the Company had retained earnings at October 31, 1980 of $123,002,000.

(9) Reference is made to Note 16 to the Consolidated Financial Statements for particulars of lease obligations.

BUSINESS

The business of the Company is the investment in and development of real estate in Canada and the United States. The Company concentrates on three development activities, namely: the development of income properties including office buildings, shopping centres, industrial/commercial centres and recently, hotel properties; the acquisition, development, rental and resale of residential housing, primarily as condominiums and co-operatives; and the acquisition, development and sale of land.

Business Activities

Income property development activities consist of acquiring suitable development sites, obtaining the required development approvals and managing the design, financing, construction and leasing of the properties. In some cases, the Company may acquire and improve existing income properties. Completed income properties are either retained by the Company or sold.

Residential development activities consist of the acquisition of existing multi-family rental properties for conversion and resale as condominium or co-operative units or for resale as upgraded income properties. The Company does not directly engage in the construction of new residential properties.

Land development activities consist of acquiring unimproved parcels of land, including the assembly of large land parcels, obtaining the required development approvals and contracting for the installation of some or all services such as roads, sidewalks and utilities. Once the requisite approvals are obtained, the Company may subdivide the land into sites for the development of office buildings, shopping centres or industrial/commercial centres by the Company or for sale, or into residential building lots and sites for multi-family residential buildings for sale. The Company may sell land at any stage of the development process.

In conducting its operations the Company identifies real estate investment and development opportunities; acquires, develops and markets land, sites and properties; arranges for the design and construction of developments; rents or sells completed developments; and manages completed developments. The Company generally engages the services of outside experts including appraisers, engineers, architects and marketing specialists. Where major construction is involved the Company engages the services of outside general contractors, generally on a fixed price basis.

The Company maintains a division, Daon Management, in each of Canada and the United States, to manage and supervise the management of its income properties and certain other properties developed and sold by the Company, including those in which the Company has retained an interest. While most of the properties in the United States are managed by independent professional property management companies, supervision of these independent managers remains the responsibility of the Company. The Company generally does not continue to manage condominium and co-operative properties developed and sold by it.

Prior to 1978, the Company's development activities were managed along regional or geographic lines. In 1978 the Company moved to a functional approach for the management of its shopping centre development and property management activities and has broadened this functional approach to include the management of its other real estate development activities.

Areas of Operation

The Canadian business is conducted by Daon and the United States business is conducted by Daon Corporation. Daon maintains offices in Vancouver, British Columbia and Calgary and Edmonton, Alberta. Daon Corporation maintains offices in Newport Beach and San Francisco, California; Seattle, Washington; Miami, Florida; and Denver, Colorado. These offices manage and control the Company's holdings and monitor local market conditions in their respective geographic areas. Daon Corporation established an office in Dallas, Texas in the fall of 1978, but closed that office in early 1980, in accordance with a decision by the Company to discontinue further operations in that area.

The principal thrust of the Company's business activities is in western Canada and the western United States. However, the Company has invested in and expects to continue to invest in real estate properties in other areas where appropriate opportunities exist. At October 31, 1980, the Company had major holdings or held major properties, in addition to the areas in which the Company maintains offices, in: Toronto and North Bay, Ontario; Dallas, Texas; Chicago, Illinois; and the Washington, D.C. area.

The following table illustrates the geographic distribution of the Company's real estate holdings as at October 31, 1980 and 1979.

PROPERTIES HELD

	Income Properties		Properties Under Development			Land Held For Future Development(5)	Total
	Office, Shopping Centre and Industrial/ Commercial	Residential (1)	Income Properties (2)	Residential Units (3)	Land (4)		
			(in thousands of dollars) October 31, 1980				
Canada:							
Alberta	$ 32,297	$ 4,616	$ 84,915	$ —	$ 29,870	$153,565	$ 305,263
British Columbia	64,098	3,378	—	4,657	14,475	7,310	93,918
Other	37,603	3,455	—	—	—	267	41,325
Sub-total	133,998	11,449	84,915	4,657	44,345	161,142	440,506
United States:							
California	55,911	108,663	18,526	138,121	60,168	92,103	473,492
Florida	—	54,800	—	68,763	—	—	123,563
Texas	—	17,531	—	9,526	4,691	9,261	41,009
Washington/Oregon	—	14,295	16,485	2,860	14,609	27,980	76,229
Other	—	5,190	3,225	27,986	161	7,341	43,903
Sub-total	55,911	200,479	38,236	247,256	79,629	136,685	758,196
Total	$189,909	$211,928	$123,151	$251,913	$123,974	$297,827	$1,198,702
			October 31, 1979				
Canada:							
Alberta	$ 48,999	$ 9,467	$ 26,672	$ —	$ 12,621	$ 98,479	$ 196,238
British Columbia	50,633	11,389	17,929	6,346	17,575	10,179	114,051
Other	29,125	3,936	2,204	—	—	40	35,305
Sub-total	128,757	24,792	46,805	6,346	30,196	108,698	345,594
United States:							
California	16,569	127,993	52,199	58,618	19,589	67,968	342,936
Florida	—	—	—	2,951	—	—	2,951
Texas	—	19,004	—	18,592	23,204	8,608	69,408
Washington/Oregon	—	13,895	2,754	13,073	15,361	17,605	62,688
Other	—	14,753	—	8,579	—	268	23,600
Sub-total	16,569	175,645	54,953	101,813	58,154	94,449	501,583
Total	$145,326	$200,437	$101,758	$108,159	$ 88,350	$203,147	$ 847,177

NOTES:

(1) Residential income properties are properties operated by the Company as income properties which are not being marketed as condominiums or co-operatives; see "Residential Properties".

(2) Includes land under development for income properties.

(3) Residential units are properties that the Company is marketing to individual purchasers as condominiums or co-operatives; see "Residential Properties".

(4) This is land under development, other than land under development for income properties.

(5) This is land held for future development, including land held for future development for income properties.

Financing

The Company finances its operations with shareholders' equity (including the issuance of preference shares) and by various types of borrowings, including purchase money financing for the acquisition of new properties, mortgage loans for the development of specific properties or upon receivables arising from the sale of properties, bank borrowings and secured and unsecured debentures.

The Company seeks to diversify borrowings by capital market, type of lender and type of financing. The Company has gained access to the capital markets in Canada and the United States through direct borrowings from banks, insurance companies, savings and loan associations, pension funds and other financial institutions. In some cases the Company finances development through joint ventures or profit-participation agreements.

When acquiring a property, the Company usually acquires an option to purchase from the vendor. Once the decision to acquire the property is made the acquisition is often financed by a cash down payment and a mortgage to the vendor of the property, usually at a fixed rate of interest. When development commences, short-term development mortgage loans are arranged from banks or other financial institutions, usually at variable rates of interest and payable on demand. These development loans are, in the case of income properties, refinanced at the time development is complete by long-term financing or in the case of properties held for sale, repaid from sale proceeds. A loan for an income property either completed or under development is secured by a mortgage of the property for which such loan is made. A loan upon land holdings or upon residential properties held for sale may, in some cases, be secured by a mortgage of a group of properties.

Financing of the acquisition and development costs of all types of properties is most often obtained from banks and other lenders at interest rates that vary with fluctuations in market interest rates. Whenever possible, the Company obtains options to fix the interest rate on such loans for predetermined periods. A large portion of these loans is with Canadian chartered banks and is payable on demand.

In addition to financings secured by specific properties and receivables, the Company may, subject to the restrictions contained in the trust indentures and debentures described under "Other Debentures of the Company", obtain operating bank loans and issue debenture debt. Such borrowings by Daon are secured by floating charges on the assets of Daon. The amount of these borrowings is based upon a borrowing base consisting of shareholders' equity and aggregate appraisal surplus (as defined in the trust indentures) and, in addition, in the case of certain of the debentures, upon the cash flow of the Company.

Since 1977, the Company has commissioned an annual appraisal of each of its real estate properties by independent real estate appraisers. The Company publicly discloses the total amount of these appraisals and includes the amount so determined as part of the base upon which bank borrowings and debenture debt may be incurred and preference shares may be issued; see "Appraisal Surplus of the Company".

Selected Financial Information

FINANCIAL HIGHLIGHTS

	October 31,				
	1980	1979	1978	1977	1976
	(in thousands of dollars)				
Total assets	$1,674,218	$1,221,662	$653,622	$464,306	$278,161
Total liabilities	$1,515,035	$1,100,659	$582,687	$430,196	$252,572
Shareholders' equity (1)	$ 159,183	$ 121,003	$ 70,935	$ 34,110	$ 25,589
Shareholders' equity at net market value (1)	$ 393,697	$ 312,658	$183,196	$ 96,664	$ 77,647
Income producing properties (net of accumulated depreciation):					
Office	$ 110,521	$ 75,385	$ 75,278	$ 58,913	$ 35,004
Shopping centre	63,999	60,925	6,785	4,924	3,962
Industrial	15,388	11,262	5,712	15,435	5,695
Residential	211,930	198,191	133,010	106,156	42,861
Total income producing properties	$ 401,838	$ 345,763	$220,785	$185,428	$ 87,522
Properties under development:					
Income producing properties:					
Office	$ 54,794	$ 71,587	$ 42,696	$ 33,477	$ 12,585
Shopping centre	61,325	19,409	39,028	7,084	3,596
Industrial	7,033	8,515	5,229	2,080	3,647
Residential	4,372	2,246	—	—	—
Total income producing properties	127,524	101,757	86,953	42,641	19,828
Homes for sale	247,540	108,160	56,578	39,250	54,382
Land under development for sale	123,973	88,350	58,309	56,844	25,629
Total properties under development	$ 499,037	$ 298,267	$201,840	$138,735	$ 99,839
Properties held for future development	$ 297,827	$ 203,147	$ 60,874	$ 60,863	$ 51,406

OPERATING HIGHLIGHTS

	1980	1979	1978	1977	1976
	Years ended October 31,				
	(in thousands of dollars)				
Real estate sales	$ 608,948	$ 477,955	$ 308,172	$ 131,453	$ 105,483
Rental revenue	45,103	35,662	31,888	20,873	13,958
Other revenue	43,910	17,619	7,516	2,981	3,735
Total revenue	$ 697,961	$ 531,236	$ 347,576	$ 155,307	$ 123,176
Net income (1)	$ 51,340	$ 42,203	$ 15,482	$ 10,340	$ 7,772
Cash flow from operations	$ 91,224	$ 78,974	$ 33,394	$ 22,261	$ 15,259

REVENUE AND OPERATING PROFIT BY DEVELOPMENT ACTIVITY

	Commercial 1980	Commercial 1979	Residential 1980	Residential 1979	Land 1980	Land 1979	Total 1980	Total 1979
	Years ended October 31, (in thousands of dollars)							
Segmented revenue								
Real estate sales	$ 96,493	$ 81,860	$ 322,552	$ 271,826	$ 189,903	$ 124,269	$ 608,948	$ 477,955
Rental	24,891	17,115	20,212	18,547	—	—	45,103	35,662
Total	$ 121,384	$ 98,975	$ 342,764	$ 290,373	$ 189,903	$ 124,269	$ 654,051	$ 513,617
Segmented operating profit								
Real estate sales	$ 19,671	$ 11,276	$ 25,696	$ 43,044	$ 53,676	$ 36,722	$ 99,043	$ 91,042
Rental	13,605	8,660	8,327	7,794	—	—	21,932	16,454
Total	$ 33,276	$ 19,936	$ 34,023	$ 50,838	$ 53,676	$ 36,722	$ 120,975	$ 107,496

REVENUE AND OPERATING PROFIT BY COUNTRY

	Canada 1980	Canada 1979	United States 1980	United States 1979	Total 1980	Total 1979
	Years ended October 31, (in thousands of dollars)					
Segmented revenue						
Real estate sales	$ 162,512	$ 130,820	$ 446,436	$ 347,135	$ 608,948	$ 477,955
Rental	27,313	20,369	17,790	15,293	45,103	35,662
Total	$ 189,825	$ 151,189	$ 464,226	$ 362,428	$ 654,051	$ 513,617
Segmented operating profit						
Real estate sales	$ 37,771	$ 32,946	$ 61,272	$ 58,096	$ 99,043	$ 91,042
Rental	14,707	10,304	7,225	6,150	21,932	16,454
Total	$ 52,478	$ 43,250	$ 68,497	$ 64,246	$ 120,975	$ 107,496

NOTE:

(1) Amounts for the years ended October 31, 1979, 1978 and 1977, respectively, have been restated in accordance with the change made in the Company's accounting policy referred to in Note 24 to the Consolidated Financial Statements.

Management's Discussion of Variation in Operating Results

A substantial portion of the net income of the Company is derived from the sale of real estate. In the five years ended October 31, 1980, the following actions by the Company significantly affected and will continue to affect the Company's business activities and operating performance.

1. In 1976, the Company discontinued the business of constructing new residential housing for sale and decided not to engage further in this business.
2. In 1976, the Company began to focus its residential development activities upon the acquisition of existing multi-family residential buildings for conversion into and resale as condominium and co-operative units.
3. In 1976, the Company expanded its operations to southern California and the Seattle area of Washington. The principal activities in this period included: the acquisition of existing multi-family rental properties; the conversion and sale of units in those properties as condominiums; and the acquisition, development and sale of land. The Company has since expanded to other areas of the United States, primarily on the west coast and in the sunbelt regions.
4. In 1977, the Company began to devote increasing resources to the development of larger income properties, including regional shopping centres and office centres.
5. Beginning late in 1978, the Company shifted the emphasis of its management structure from a geographic structure toward a functional structure based upon type of development activity, permitting the Company to take greater advantage of specialized management abilities.

The operating results of the Company during the past three years have been largely a result of the Company's ability to acquire and sell properties in appropriate market areas. Operating results for the years ended October 31, 1978 and 1979 benefited from generally favourable economic conditions and particularly strong economic growth in Alberta and southern California.

During the year ended October 31, 1978, the Company's activities in the United States accounted for most of the growth in the total revenue and net income of the Company over that of the preceding year. The operations of Daon Corporation accounted for 58% of the Company's total revenues compared to 28% of the Company's total revenues for the prior year and 79% of the Company's net income compared to 34% of the Company's net income for the prior year. The substantial growth in total revenues and net income from the operations of Daon Corporation in the year ended October 31, 1978 was largely the result of the sale of properties which were acquired during 1977 and which were developed by 1978. This growth in revenue and net income during 1978 was generated primarily in southern California and was attributable to the sale of substantially more condominium units and land at higher profit margins and the sale of a major office building.

During the year ended October 31, 1979, significant contributions to the growth in total revenue and net income were made, in Canada, by substantial land sales in Alberta, particularly in Calgary, and by the sale of condominium units in a single project in Vancouver and, in the United States, by the conversion and sale of condominium units, primarily in southern California and by the sale of land, several industrial/commercial buildings and certain multi-family residential buildings as investment properties in southern California. In this year, the operations of Daon Corporation accounted for 70% of the Company's total revenues and 58% of the Company's net income.

During the year ended October 31, 1980, the Company faced high and volatile interest rates and reduced levels of economic activity in most of its geographic markets. In this year, revenue from the sale of residential properties increased 19% over the prior year primarily due to the sale of multi-family residential buildings as income properties in Dallas, Texas and northern California. However, operating profit margins from the sale of the residential properties decreased from 16% in the year ended October 31, 1979 to 8% in the year ended October 31, 1980, primarily as a result of increased carrying costs resulting from high short-term interest rates, reduced levels of demand from potential purchasers of condominium units as a result of historically high residential mortgage interest rates and an operating loss associated with the sale of condominium units and multi-family residential buildings as investment properties in Dallas, Texas.

During the year ended October 31, 1980, revenue from the sale of land increased 53% over the prior year, primarily due to the sale of several prime parcels of land, including the Ford property (Orange County, California), the Lake San Marcos property (San Diego County, California) and the Quorum property (Dallas, Texas). In this year revenue from the sale of income properties increased 18% over the prior year, primarily as a result of

the sale of, or the sale of interests in, several major office buildings, including Daon Centre in Vancouver, British Columbia in which the Company sold an approximate 50% interest as limited partnership units, and the sale of an increased number of industrial/commercial buildings in Alberta and southern California.

Net income for the year ended October 31, 1980 reflects the sale of certain marketable securities which the Company held in its investment portfolio, including the sale of common shares of The Cadillac-Fairview Corporation Ltd. for $18,315,000 upon which the Company recorded a pre-tax profit of $10,469,000.

The Company had opened an office in Dallas, Texas in 1978 and acquired a number of residential properties for conversion to and resale as condominiums and parcels of land for development and sale. In December, 1979, the Company decided to discontinue its operations in Dallas, Texas. While the Company had been successful in land development activities in this area, the Company encountered difficulties in its condominium conversion activities. These difficulties were primarily due to operating problems and the existence of interest rate ceilings in Texas during a period of escalating interest rates. Late in 1979 the Company discontinued its Dallas operations and, in 1980, commenced the sale of its Dallas properties. The Company expects to sell the remaining properties in Dallas during its fiscal year to end in 1981. The net results from the Dallas operations cannot be determined at this time; however, management does not expect the loss resulting from such operations, if any, to be material.

In the year ended October 31, 1980, despite unprecedented high interest rates and reduced levels of economic growth in both Canada and the United States, and the recording of losses in respect of certain residential properties, particularly in Dallas, Texas, earnings were $1.32 per share, the highest in the Company's history, showing an increase of 20% over the prior year. In addition, net market value of assets per Common Share increased 32% to $9.81 per Common Share.

Corporate Development and Prospects

A principal reason for the Company's growth to date has been its ability to identify investment opportunities and to take advantage of such opportunities when and where they arise. Senior management believes that flexibility is necessary for successful investment and growth, and, accordingly, the Company monitors its development activities and reallocates its resources among various geographic areas and types of development activities in response to changing market conditions and available investment and financing opportunities.

As the Company has grown, it has expanded the geographic markets in which it conducts its activities and has invested selectively in larger properties, the development of which will occur over extended periods of time. The Company has sought and will continue to seek to balance such major projects with smaller projects which have a shorter time between acquisition by the Company and sale.

Recently, due to historically high long-term interest rates, the Company has sold interests in certain of its income properties under development by way of partnership interests and may continue to do so in the future. By so doing, the Company is able to obtain the funds to pay for all or a large part of the development costs of these properties but, at the same time, the interest of the Company in these properties is reduced.

Management believes that sufficient real estate investment and development opportunities are available and no current consideration is being given to diversification into business activities which are not related to real estate.

PROPERTIES

Properties located in Canada are owned by Daon and properties located in the United States are owned by Daon Corporation. Most of these properties are encumbered by debt; see "Consolidated Capitalization".

In the course of its business the Company acquires, develops, finances, rents, holds, sells and otherwise deals with its properties and the properties described in this "Properties" section are at one or more of these stages.

The tables in the following sections contain summaries of properties held by the Company as at October 31, 1980. Unless otherwise indicated, properties with respect to which the Company held options or had contingent rights to purchase are not included.

Income Properties

The Company acquires and develops income properties, including office buildings, shopping centres, industrial/commercial centres and recently, hotel properties, for its income property portfolio or for sale.

The Company has operating personnel who specialize in the investment in and development of the different types of income properties, and has construction management, leasing, property management and other specialists.

Income property development and investment opportunities are identified through internal research and outside parties, including other developers and real estate agents. The Company also generates income property sites in the normal course of developing large land assemblies or through the purchase of specific sites suitable for development of income properties.

The Company often undertakes projects in partnership with outside parties, with the Company acting either as the development partner or the financial partner. The Company may bring in a partner in order to reduce its financial exposure or provide specialized knowledge with respect to local markets.

When an attractive development opportunity is identified the Company seeks to obtain control of the site. In order to minimize its financial risk the Company, whenever possible, acquires control of the site through an option or other arrangement requiring a minimum cash commitment and satisfies itself as to the economic feasibility of the project, the likelihood of receiving the required development approvals and the availability of interim financing, if necessary, before committing to purchase the site. Upon such purchase, the Company negotiates with the appropriate authorities to obtain the required development approvals. Although design and other preliminary work may proceed, commencement of construction is usually dependent on several factors including the current and prospective conditions in the real estate and capital markets and the amount of space pre-leased. Under favourable market conditions the Company may commence construction before obtaining letters of intent from tenants to lease space in the project.

The Company makes extensive use of outside consultants and architects. Construction is undertaken by outside contractors, usually based on contracts which provide for a ceiling on costs. Performance of general contractors and outside architects is closely supervised by the construction and development staff of the Company. The Company utilizes in-house leasing personnel whenever possible except with respect to office buildings where outside leasing agents are generally used. The Company generally leases its income properties on terms that require the tenants to pay either all taxes, operating expenses and costs of utilities or any increases in taxes, operating expenses and costs of utilities above those of the base year. Generally, the Company does not enter into leases with terms longer than five or ten years unless such leases provide a means of receiving increased rent.

Office Buildings

In the five years ended October 31, 1980, the Company, either wholly or jointly, acquired or completed the development of 20 office buildings containing 3,064,000 square feet (2,429,000 square feet net of partners' interests, or "net square feet") of rentable office space.

During the year ended October 31, 1980, the Company completed the development of four office buildings containing 971,000 square feet (635,000 net square feet) of rentable office space and sold two office buildings and interests in two office buildings containing 508,000 net square feet of rentable office space.

At October 31, 1980, the Company held, either wholly or jointly, 14 office buildings containing 2,530,000 square feet (1,566,000 net square feet) of rentable office space and had under development, either wholly or jointly, five office buildings containing 1,372,000 square feet (1,065,000 net square feet) of rentable office space. In addition, at October 31, 1980, the Company owned or had under option to purchase seven sites for the development of office buildings which, if all developments are undertaken and completed, will result in the development of office buildings containing in aggregate approximately 2,278,000 square feet of rentable office space.

MAJOR OFFICE BUILDINGS AS AT OCTOBER 31, 1980 (1)

Name	Location	Year of Completion of Development	Rentable Area (Sq. Ft.)	Percentage Leased (2)
	Income Producing Office Buildings			
Alberta				
Daon Building	Calgary	1973	167,000	100% (3)
Seventh Street Plaza (4)	Edmonton	1978	332,000	100
British Columbia				
Daon Centre (5)	Vancouver	1980	207,000	97 (6)
1050 West Pender (7)	Vancouver	1974	247,000	96
California				
444 Market Street (8)	San Francisco	1980	605,000	100 (9)
Heritage Park (10)	Alameda County	1980	100,000	56
Pacific I (8)	San Francisco	1978	175,000	99
Ontario				
Toronto Professional Buildings	Toronto	1977	401,000	93
	Office Buildings Under Development			
Alberta				
Chevron Plaza (11)	Calgary	1981	267,000	91
California				
Pacific II (8)	San Francisco	1981	213,000	40
Capital Place	Sacramento	1982	228,000	0
Colorado				
Ptarmigan Place (8)	Denver	1982	402,000	0
Washington				
Daon Building	Seattle	1981	262,000	9
	Land Held for Future Development of Office Buildings			
California				
Battery & Sacramento	San Francisco	1983	260,000	N/A
Growers Square (12)	Walnut Creek	1982	180,000	N/A
Oceangate (8)	Long Beach	1983	430,000	N/A (13)
Pacific III (8)	San Francisco	1983	300,000	N/A

NOTES:

(1) Office buildings have been divided into income producing office buildings, office buildings under development and land held for future development of office buildings as determined for purposes of the Company's Consolidated Financial Statements for the year ended October 31, 1980.

(2) Space is considered to be leased when a letter of intent is signed by a party whom the Company believes will execute a lease as well as when an agreement to lease or a lease is executed.

(3) Includes 11,659 square feet occupied by the Company.

(4) The Company holds a 20% interest in this property.

(5) This property is owned by Daon Centre Limited Partnership in which the Company is general partner and holds a 50.11% interest.

(6) Includes 78,191 square feet leased by the Company.

(7) Subsequent to October 31, 1980, the Company sold a 70% interest in this office building.

(8) The Company holds a 50% interest in this property.

(9) Includes 34,912 square feet intended to be occupied by the Company.

(10) The Company holds a $66\frac{2}{3}$% interest in this property. The other party has the right to increase its interest to 50% or to receive the return of its investment and relinquish its interest.

(11) On October 22, 1980, the Company entered into an agreement to sell a 50% interest in this property to the major tenant upon completion of construction of the office building.

(12) The Company holds a lease of this property with a right to purchase the property.

(13) 39% of the office space to be developed on this land has been pre-leased.

Shopping Centres

In the five years ended October 31, 1980, the Company, either wholly or jointly, acquired or completed the development of 15 shopping centres containing approximately 2,114,000 square feet (1,505,000 net square feet) of rentable shopping centre space.

During the year ended October 31, 1980, the Company completed the development of three shopping centres containing 389,000 square feet (202,000 net square feet) of rentable shopping centre space and sold three shopping centres containing 218,000 square feet (118,000 net square feet) of rentable shopping centre space.

At October 31, 1980, the Company held, either wholly or jointly, seven completed shopping centres containing 1,694,000 square feet (1,097,000 net square feet) of rentable shopping centre space and had three regional shopping centres under development containing 1,860,000 square feet (1,860,000 net square feet) of rentable shopping centre space.

The three regional shopping centres under development are located in Alberta. These shopping centres are owned by Daon Shopping Centres, Alberta, a limited partnership formed under the laws of Alberta, in which the Company is general partner. The following table provides a brief description of the shopping centres being developed by Daon Shopping Centres, Alberta.

Name	Location	Gross Area (sq. ft.)	Rentable Area (sq. ft.)	Major Tenants (rentable sq. ft.)	Mall Retail Space (rentable sq. ft.)	Scheduled Opening
Heritage Mall	Edmonton	914,500	779,000	The T. Eaton Company Limited (164,400)(1) Simpsons-Sears Limited (152,300) F.W. Woolworth Co. Limited (142,600) Canada Safeway Limited (47,800)	271,900	August, 1981
Bower Place Shopping Centre	Red Deer	500,000	435,000	The T. Eaton Company Limited (122,500) Woodward Stores (Alberta) Limited (151,800)	160,700	May, 1981
Sunridge Mall	Calgary	791,500	645,500	The T. Eaton Company Limited (165,300) Woodward Stores (Alberta) Limited (233,000)	247,200	August, 1981

NOTE:

(1) The T. Eaton Company Limited is not obligated to open its department store at Heritage Mall until April, 1982, but the department store is now under construction and may be open at the time of the scheduled opening of Heritage Mall.

In December, 1980, Daon Shopping Centres, Alberta completed the sale of 1,421 Class A Limited Partnership Units for $177,625,000. Daon purchased 261 of such Class A Limited Partnership Units and also holds 750 Class B Limited Partnership Units and 50 Class C Limited Partnership Units representing an approximate 48% interest in the limited partnership.

In addition, at October 31, 1980, the Company owned or had under option to purchase five sites for the development of shopping centres which, if all developments are undertaken and completed, will result in the development of shopping centres having in aggregate approximately 2,100,000 square feet of rentable shopping centre space.

MAJOR SHOPPING CENTRES AS AT OCTOBER 31, 1980 (1)

Name	Location	Year of Completion of Development	Rentable Area (Sq. Ft.)	Percentage Leased (2)
	Income Producing Shopping Centres			
Alberta				
Wetaskiwin Mall	Wetaskiwin	1979	146,000	91%
British Columbia				
Coquitlam Centre (3)	Coquitlam	1979	736,000	98
Langley Mall (4)	Langley	1975	132,000	100
Waneta Plaza	Trail	1979	193,000	97
Manitoba				
Portage Mall	Portage La Prairie	1979	190,000	97
Ontario				
Northgate Square Phase I (3) (5)	North Bay	1980	285,000	96
	Shopping Centres Under Development			
Alberta				
Bower Place Shopping Centre (6)	Red Deer	1981	435,000	63
Heritage Mall (6)	Edmonton	1981	779,000	65
Sunridge Mall (6)(7)	Calgary	1981	645,500	62

NOTES:

(1) Shopping centres have been divided into income producing shopping centres and shopping centres under development as determined for purposes of the Company's Consolidated Financial Statements for the year ended October 31, 1980.

(2) Space is considered to be leased when a letter of intent is signed by a party whom the Company believes will execute a lease as well as when an agreement to lease or a lease is executed.

(3) The Company holds a 50% interest in this property.

(4) The Company holds a 33⅓% interest in this property.

(5) This property includes renovations and improvements to an existing shopping centre of 116,000 square feet and an expansion of 169,000 square feet. Subsequent to October 31, 1980, the Company acquired the remaining 50% interest in this property. The Company holds an option to purchase property adjoining Phase I to be used for Phase II development consisting of an additional 340,000 square feet of rentable area, which is conditional upon receiving the requisite regulatory approvals which, at February 2, 1981, had not been received.

(6) This shopping centre is owned by Daon Shopping Centres, Alberta, a limited partnership in which the Company is the general partner. The Company holds an approximate 48% interest in this partnership. The percentage leased in this shopping centre relates only to major tenants. Expressions of interest have been received from prospective mall retail store tenants for most of the rentable mall space in this shopping centre.

(7) This shopping centre property includes approximately 17 acres of land held for the future expansion of Sunridge Mall by approximately 210,000 square feet of rentable shopping centre space.

Industrial/Commercial Centres

The Company's industrial/commercial centres are generally constructed on sites which have been developed and subdivided by the Company as part of large land parcels; see "Land". Development of such centres is undertaken for retention by the Company as income properties or for sale to outside parties. Such centres consist of light industrial/warehouse, small office and retail space or a combination of such facilities.

In the five years ended October 31, 1980, the Company, either wholly or jointly, acquired or completed the development of 1,875,000 square feet (1,655,000 net square feet) of rentable industrial/commercial space in Alberta and southern California in nine industrial parks.

During the year ended October 31, 1980, the Company completed the development of 909,000 square feet (744,000 net square feet) of rentable industrial/commercial space and sold 798,000 square feet (683,000 net square feet) of rentable industrial/commercial space.

At October 31, 1980, the Company held 588,000 square feet (537,000 net square feet) of completed rentable industrial/commercial space and 455,000 square feet (371,000 net square feet) of rentable industrial/commercial space under development.

The Company's inventory of land owned or under option includes a large number of sites on which industrial/commercial properties could be developed and, subject to the receipt of appropriate regulatory approvals, additional sites for properties are expected to be developed within the Company's larger, mixed-use land assemblies.

MAJOR INDUSTRIAL/COMMERCIAL CENTRES AS AT OCTOBER 31, 1980 (1)

Name	Location	Year(s) of Completion of Development	Rentable Area (Sq. Ft.)	Percentage Leased (2)
Income Producing Industrial/Commercial Centres				
Alberta				
Norwester Industrial Phase I	Edmonton	1977-80	197,000	75%
Norwester Industrial Phase II	Edmonton	1980	213,000	94
California				
Central D & C (3)	San Bernadino County	1980	101,000	36
Industrial/Commercial Centres Under Development				
Alberta				
Norwester Industrial Phase II	Edmonton	1981	246,000	100
California				
Irvine Industrial (3)	Orange County	1981	168,000	N/A (4)

NOTES:

(1) Industrial/commercial centres have been divided into income producing industrial/commercial centres and industrial/commercial centres under development as determined for purposes of the Company's Consolidated Financial Statements for the year ended October 31, 1980.

(2) Space is considered to be leased when a letter of intent is signed by a party whom the Company believes will execute a lease as well as when an agreement to lease or a lease is executed.

(3) The Company holds a 50% interest in this property.

(4) This property is being marketed as industrial condominiums.

Residential Properties

An important segment of the Company's total operations is the acquisition of existing multi-family rental properties for improvement, conversion and sale primarily as condominiums or co-operatives or for improvement and sale as investment properties. Residential properties intended for conversion are operated as income properties during the approval process and until market conditions and the Company's operating and financial plans warrant the sale of residential units in these properties as condominium or co-operative units. Residential units in these properties may continue to be rented while the Company is marketing residential units in these properties for sale. In certain areas in which the Company operates, new residential units may now be purchased for less than the cost of acquiring and converting existing properties and therefore, in such areas, the Company has recently contracted to purchase, upon completion, residential multi-family properties under construction and may continue to obtain inventory of residential units for resale in this manner. The Company generally does not directly engage in the construction of new residential properties; however, in a few instances, the Company contracts on a profit-sharing basis for construction of single family homes and townhouses upon land which it developed and may engage, as a joint venture partner, in the construction of new residential units.

The approval process for condominium and co-operative conversion differs in the various jurisdictions in which the Company operates. The average period of time required to obtain approvals is six to nine months; however, in a few instances, the Company has not been able to obtain approvals to convert certain of its residential properties. Where the Company fails to obtain such approvals, the property is operated as an income property until it is sold.

The Company employs specialists in the development of marketing programs for the sale of residential properties. Generally, few major structural changes are required. The Company engages outside contractors for roofing, asphalt and concrete work, painting and technical work such as electrical and structural changes but utilizes its own staff for landscaping and the installation of carpets, drapes, fixtures and similar improvements.

The Company's residential properties in certain areas are subject to rent controls. Compliance with these controls has not materially affected the Company's operations.

Provincial, state and local governments in many areas in which the Company operates have enacted or are considering enacting legislation or ordinances regulating or, in some cases, restricting the conversion of existing rental properties into condominiums or co-operatives. In the opinion of management, such legislation and

ordinances will not have an adverse effect on the operations of the Company relating to the residential income properties now held by the Company. In most cases, the Company has obtained the approvals required to convert its rental properties. Where the Company fails to obtain the required approvals, the Company continues to operate such properties as income properties until they are sold. Where such legislation or ordinances exist or are pending, the Company usually purchases properties which have condominium or co-operative approval or makes the purchase conditional upon the receipt of such approval. In the opinion of the Company, the likely effect of such legislation and ordinances will be to reduce the number of developers engaged in the condominium and co-operative conversion business and to limit the number of residential income properties suitable for conversion into condominiums or co-operatives in such areas in the future.

Management estimates the inventory of properties which are owned or under option at October 31, 1980 is sufficient to sustain sales for approximately two to three years based on projected sales levels.

During the year ended October 31, 1980, the Company sold 5,809 units (5,268 units, net of partners' interests, or "net units") as compared to 5,323 units (4,931 net units) sold in the year ended October 31, 1979. Sales of condominiums and co-operatives are sensitive to the level of mortgage interest rates.

At October 31, 1980, the Company held, either wholly or jointly, 65 residential properties containing 9,371 units (8,061 net units), of which 4,872 units (4,317 net units) were in its income property portfolio and 4,499 units (3,744 net units) were being marketed as condominium or co-operative units. In addition, the Company held under option, either wholly or jointly, 11 residential properties containing 3,348 units (2,572 net units).

MAJOR RESIDENTIAL PROPERTIES AS AT OCTOBER 31, 1980 (1)

Name	Location	Description	Number of Units (2)	Year of Acquisition	Year(s) of Scheduled Sale	Percentage Leased (3)	Number of Units Sold (4)
Southern California							
Alpha Terrace	Glendale	Garden Apartments	101	1979	1980-81		26
Briarcrest (5)	North Hollywood	Low Rise	120	1980	1980-81		0
Canyon Club Estates (6)	Hollywood	Garden Apartments	137	1980	1981-82	98%	
Casa Loma (5)(7)	Mission Viejo	Low Rise	144	1980	1980-81		1
Newcastle Manor (5)	Encino	Low Rise	280	1979	1980-81		84
The Park	Los Angeles	Garden Apartments	350	1979	1980-81	29	
Parkridge	Sherman Oaks	Low Rise	108	1979	1981	99	
Peppertree (6)	Santa Ana	Garden Apartments	184	1980	1981	89	
Porto Verde (5)(6)	Los Angeles	Low Rise	216	1980	1981-82	91	
Village Square (8)	San Diego	Low Rise	288	1980	1981		25
Northern California							
Cote d'Azur (5)	Sausalito	Garden Apartments	60	1979	1980-82		0
Governor's Square West	Sacramento	Garden Apartments	200	1979	1981-82	95	
Meridian Woods (8)	San Jose	Garden Apartments	282	1979	1980-81		116
The Place (8)	San Bruno	Garden Apartments	872	1980	1981-83	97	
Foxborough	San Jose	Garden Apartments	296	1980	1980-81		17
Woodsborough	Santa Clara	Garden Apartments/ Townhouses	478	1979	1980-81		237
Woodside I-IV (9)	Sacramento	Garden Apartments	558	1979	1980-82		175

MAJOR RESIDENTIAL PROPERTIES AS AT OCTOBER 31, 1980 (1)

Name	Location	Description	Number of Units (2)	Year of Acquisition	Year(s) of Scheduled Sale	Percentage Leased (3)	Number of Units Sold (4)
Florida							
Belle Plaza	Miami Beach	Luxury High Rise	226	1979	1980-81		76
South Bay Club (7)	Miami Beach	Luxury High Rise	347	1979	1980-82		5
Hallmark (8)	Hollywood	Luxury High Rise	375	1979	1980-82		24
The Diplomat (10)	Hollywood	Luxury High Rise	268	1979	1980-82	82	
Ocean Pavillion	Miami Beach	Luxury High Rise	334	1980	1981-82	88	
Washington/Oregon							
South Pointe	Everett	Garden Apartments	249	1979	1981-82	99	
Towne Square	Seattle	Garden Apartments	106	1979	1981-82	92	
Other							
Westchester Park (9)(11)	College Park, Maryland	High Rise	606	1979	1980-82		95
Four Lakes Village (12) Phase I	Chicago, Illinois	Low Rise/ Townhouses	483	1980	1980-82		227

NOTES:

(1) Includes properties operated as income properties and properties being marketed as condominiums and co-operatives.

(2) Includes partners' interests where applicable. Represents the number of units in the property.

(3) Indicated only in respect of properties operated as income properties.

(4) Indicated only in respect of properties marketed as condominiums or, where indicated, as co-operatives. A condominium is a discrete unit owned by the purchaser in a multi-family property. The purchaser also has a proportionate undivided interest in the common areas of the property.

(5) This property is being marketed as a co-operative. A co-operative unit is acquired through the purchase of shares in a co-operative housing corporation. These shares entitle the stockholder to a proprietary lease of a specific dwelling unit on the property owned by the corporation.

(6) The Company holds a 95% interest in this property.

(7) Subsequent to October 31, 1980, the Company elected to discontinue offering residential units for sale in this property and began re-renting all unsold units.

(8) The Company holds a 50% interest in this property.

(9) This property is being sold in phases.

(10) The Company holds a 66⅔% interest in this property.

(11) Another party is entitled to 41⅔% of the net profits from the Company's 60% interest in this property.

(12) The Company holds a 60% interest in this property.

Land

The Company develops land as residential building lots for sale to home builders and as sites for the development of office, shopping centre, industrial/commercial and residential buildings for sale or for development by the Company as income properties for sale or for retention by the Company. With respect to industrial/commercial development, the Company's activities consist of the assembly and subdivision of land into sites for construction of buildings, sometimes in industrial parks, which are sold to users or utilized by the Company for construction of buildings for retention or sale and as projects are brought to market, additional land is assembled and space developed. The Company concentrates its development of industrial/commercial land in Alberta and Southern California.

The Company's land development managers make extensive use of outside experts including market researchers and engineers.

Land development usually begins with the identification of unimproved parcels of land by project managers based on a preliminary economic analysis of the marketability of the types of projects which may potentially be developed. Whenever possible the Company obtains an option or other contingent right to purchase the land and does not make a commitment to purchase until it is satisfied with the economic viability of the project, the results of engineering, soils and geology tests and the likelihood of obtaining the required development approvals. The Company seeks and generally is able to obtain financing for the acquisition of the property at a fixed rate of interest from the vendor.

After the assembly of a parcel, the Company negotiates with the appropriate authorities to obtain the necessary development approvals. The Company has extensive experience in managing this approval process which can be complex, costly and time-consuming and may involve a large number of municipal and other authorities and public hearings. The land development process typically includes working with planning, engineering, architectural and other consultants, preparing feasibility and marketing projections, securing preliminary environmental and other governmental approvals, securing zoning approvals and, most critically, securing approval of a tentative and final subdivision plan. After such development approvals are obtained, the parcel is subdivided in accordance with the conditions of such approvals. Subdivision includes grading and the installation of services such as roads, sidewalks, utilities and storm and sanitary sewers by outside contractors and the marketing of fully serviced lots, generally to medium and larger-size home builders or industrial users. In California, if the builder prefers to install services, land is sold without installation of services. The Company may sell land at any stage of the development process.

The Company attempts to maintain a balance between land under development and land held for future development. The Company considers land to be under development when a subdivision plan has been approved by regulatory authorities, a development budget has been approved by the Company and a commitment for construction financing has been obtained, or, alternatively, when the Company has commenced active marketing of the land. All other land is categorized as land held for future development. Although the Company acquires and develops a number of small parcels, increasing emphasis is being placed on the acquisition and development of large land assemblies suitable for mixed-use developments. Smaller parcels can usually be developed over a shorter time period than large parcels and may produce higher profits as a percentage of sales; however, larger developments provide a continuing source of cash flow over a number of years and may also generate opportunities to develop sites for shopping centres and industrial/commercial centres.

The Company has three major land assemblies, a portion of each of which is under development: The Homesteads, a 4,147 acre project southeast of Calgary; Harbour Pointe, a 1,424 acre project north of Seattle; and Shadow Ridge, a 904 acre project in San Diego County. Development of these land assemblies will likely extend over the next decade. The Company has sold residential building lots in Harbour Pointe and Shadow Ridge in 1980 and expects to offer residential building lots for sale in The Homesteads in early 1981. In addition the Company has three major land assemblies currently included in land held for future development in which the Company expects to offer residential building lots for sale within the next three years. These land assemblies are: Project 80, a 1,188 acre project south of Edmonton; Newcastle Hills, a 1,863 acre project southeast of Seattle; and Miramar Ranch North, a 1,067 acre project in San Diego County. The Company also holds an option, which expires in 1981, on a 6,200 acre property located in Los Angeles and Ventura Counties. Should the Company acquire this property, development is expected to occur over the period from 1985 to 2000.

During the year ended October 31, 1980, the Company sold 1,590 acres (1,571 acres net of partners' interests, or "net acres") of land as compared with 1,596 acres (1,578 net acres) of land sold in the year ended October 31, 1979.

At October 31, 1980, the Company held, either wholly or jointly, 2,092 acres (1,999 net acres) of land under development, 12,721 acres (12,590 net acres) of land for future development and 11,414 acres (11,363 net acres) of land under option. These figures include 593 acres (499 net acres) of industrial land under development, 1,151 acres (1,108 net acres) of industrial land for future development and 157 acres (152 net acres) of land under option for future industrial development.

MAJOR LAND HOLDINGS AS AT OCTOBER 31, 1980 (1)

Name	Location	Description of Development	Years of Acquisition	Acres (2)	Scheduled Year(s) of Development and/or Sale
Alberta					
Applewood	Calgary	Residential	1979	224	1981-84
Bonnyville	Bonnyville	Residential	1980	261	1981-86
The Homesteads	Calgary (3)	Multi-use	1973-79	4,147	1980-95
Horizon (Sunridge)	Calgary	Industrial/Commercial	1973-80	451	1980-86
Northwest Land Assembly	Edmonton	Industrial	1973-75	253	1980-90
Norwester Industrial Phase II	Edmonton	Industrial	1974	82	1980-82
Sherwood Park	Edmonton (4)	Industrial	1980	320	1981-88
Project 80	Edmonton (4)	Multi-use	1978-80	1,188	1981-90
British Columbia					
Dilworth Mountain	Kelowna	Residential	1973	821	1980-86
Southern California					
Uniroyal	Los Angeles	Multi-use	1979	44	1980-81
Shadow Ridge	San Diego County	Multi-use	1976-77	904	1980-88
Torrance Business Park (5)	Torrance	Industrial/Commercial	1980	26	1980-82
Rancho Cucamonga (6)	San Bernadino County	Industrial/Commercial	1980	249	1980-85
Miramar Ranch North	San Diego	Multi-use	1979	1,067	1981-86
Corona McKinley	Riverside County	Multi-use	1979	348	1982-84
Carrillo Ranch	San Diego County	Residential	1979	364	1980-83
Idaho					
Greyhawk (7)	Sun Valley	Residential	1980	60	1980-82
Oregon					
Mountain Park & Town Centre	Portland	Multi-use	1978	77	1979-82
Texas					
Woodhaven	Fort Worth	Multi-use	1978-79	140	1980-82
Washington					
Harbour Pointe	Snohomish County	Multi-use	1978	1,424	1980-90
Newcastle Hills (8)	King County	Residential	1978	100	1982-92

NOTES:

(1) Includes land for the development of income properties.

(2) Includes partners' interests where applicable.

(3) Approximately 1,600 acres of this property lie within the boundaries of the City of Calgary. The balance lies in an area identified as a growth corridor for the future expansion of the City of Calgary and has been approved for annexation by the City of Calgary, subject to the approval of the Alberta cabinet.

(4) This property lies outside of the boundaries of the City of Edmonton but has been approved for annexation by the City of Edmonton, subject to approval by the Alberta cabinet.

(5) The Company holds a 65% interest in this property.

(6) The Company holds a 50% interest in 100 acres of this property and a 100% interest in the remaining 149 acres of this property.

(7) The Company holds a $41^2/_3$% interest in this property.

(8) The Company has an additional 1,763 acres of this property under option.

MAJOR TRANSACTIONS SUBSEQUENT TO OCTOBER 31, 1980

The following are particulars of major properties that have been purchased by the Company since October 31, 1980:

Name	Location	Description of Property
Castlewood Corporation (1)	Denver, Colorado	six parcels of land in Denver, Colorado containing approximately 1,000 acres of land for multi-use land development
Christ Church Cathedral site (2)	Vancouver, British Columbia	site for development of an office building containing approximately 605,000 rentable square feet of office space
Mayo Hotel (3)	Tulsa, Oklahoma	a hotel for renovation, upgrading and operation

Name	Location	Description of Property
Omni International (4)	Atlanta, Georgia	a multi-use project consisting of: —a 471 room luxury hotel —two office towers containing 483,000 rentable square feet of office space —200,000 rentable square feet of retail space —105,800 square feet of exhibition space
La Costa (5)	San Diego County, California	3,300 acres of land for residential land development
North Spokane Mall (2)	Spokane, Washington	118 acre site for a regional shopping centre
The Stock Exchange Tower, Place Victoria (6)	Montreal, Quebec	an office building containing 1,010,500 rentable square feet of office space and 90,000 rentable square feet of retail/commercial space
Northwood (7)	Edmonton, Alberta	a shopping centre containing approximately 264,200 rentable square feet of shopping centre space

NOTES:

(1) On December 1, 1980, Daon Corporation acquired all of the shares of Castlewood Corporation, a Colorado corporation, resulting in the opening of the Company's office in Denver, Colorado.

(2) The Company holds a 50% interest in this property.

(3) The Company intends to contract with a hotel management company for the management of this property.

(4) The Company holds a 50% interest in a general partnership which acquired this property on January 2, 1981. An affiliate of the Company's partner will manage the property.

(5) On December 19, 1980 the Company entered into an agreement for the purchase of this property subject to certain conditions which, at February 2, 1981, had not been fulfilled.

(6) The Company has entered into an agreement to purchase this property on February 25, 1981. Other people are negotiating with the Company to acquire a 50% interest in this property.

(7) The Company has entered into an agreement to purchase this property on February 27, 1981.

Subsequent to October 31, 1980, Daon Shopping Centres, Alberta, a limited partnership that owns three regional shopping centres under construction in Alberta, completed the sale of Class A Limited Partnership Units. The Company holds an approximate 48% interest in the limited partnership. When such shopping centres are complete and open to the public, the Company expects to realize a pre-tax operating profit (before general and corporate expenses, including interest) of approximately $40,000,000 from the sale of such limited partnership units which will have a material effect upon the earnings of the Company for its fiscal year to end in 1981. The Company expects that, in succeeding years, the interest of the Company in the limited partnership that owns these shopping centres will add significantly to the Company's net income, cash flow and appraisal surplus.

On January 27, 1981, a wholly-owned subsidiary of Daon made a tender offer to acquire all of the shares of Corona Foothill Lemon Company ("Corona") and a tender offer to acquire all of the shares of Temesco, a subsidiary of Corona, other than the shares of Temesco held by Corona. The offers are conditional upon acquiring at least 90% of the shares of Corona and 80% of the shares of Temesco (including the shares of Temesco held by Corona). Shareholders of Corona holding approximately 54.7% of the shares of Corona have agreed to tender their shares. Corona owns approximately 51% of the shares of Temesco. The primary assets of Corona and Temesco, and their subsidiaries, consist of approximately 7,000 acres of land, much of which is capable of being developed for residential, commercial and industrial projects.

EMPLOYEES

The following table indicates the distribution of the full-time employees of the Company by geographic area and by corporate function as at October 31, 1980:

Geographic Area	Number of Employees
Alberta	78
British Columbia	293
California	418
Florida	34
Texas	6
Washington/Oregon	27
Other	35
Total	891

Corporate Function	Number of Employees
Accounting	138
Administration and Other	144
Finance	53
Industrial/Commercial Centres	44
Land	62
Office Centres	39
Property Acquisition	5
Property Management	22
Residential	305
Shopping Centres	79
Total	891

DETAILS OF THE OFFERING

The following is a summary of the material attributes and characteristics of the 10¾% Convertible Subordinated Debentures due January 31, 2001 (the "Convertible Debentures"). For complete particulars reference should be made to the Indenture referred to below.

General

The Convertible Debentures will be issued pursuant to the provisions of a trust indenture (the "Indenture"), to be dated as of February 24, 1981, to be entered into between Daon and Crown Trust Company, as trustee (the "Trustee") and will be limited to $50,000,000 in aggregate principal amount.

The Convertible Debentures will be direct obligations of Daon and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other indebtedness of Daon as more completely described below under "Subordination".

The Convertible Debentures will bear interest at the rate of 10¾% per annum accruing from February 24, 1981, payable semi-annually on January 31 and July 31 in each year and will mature on January 31, 2001. The Convertible Debentures will be available in coupon form registered as to principal only in the denominations of $1,000, $5,000 and $25,000 and as fully registered Convertible Debentures in denominations of $1,000 and authorized multiples thereof. The principal of and semi-annual interest, and redemption premium, if any, on the Convertible Debentures will be payable in lawful money of Canada at any branch in Canada of Daon's banker.

Conversion Provisions

The Convertible Debentures will be convertible, at the option of the holder, at any time prior to the close of business on January 31, 1991 or, in the case of Convertible Debentures called for redemption prior thereto, on the last business day prior to the date for which Convertible Debentures are called for redemption, into Common Shares of Daon at a price of $15.00 per Common Share, being the equivalent of 66⅔ Common Shares per $1,000 Convertible Debenture.

The Indenture will provide for adjustments to be made in the conversion basis in certain events including:

(a) the subdivision, consolidation or reclassification of the outstanding Common Shares;

(b) the capital reorganization, consolidation, merger or amalgamation of Daon including by way of sale of substantially all of its undertaking and assets;

(c) the distribution of Common Shares or other securities exchangeable or convertible into Common Shares to all holders of its Common Shares by way of stock dividend or otherwise, other than an issue of Common Shares to holders of Common Shares who exercise an option to receive dividends in Common Shares in lieu of receiving regular cash dividends;

(d) the issuance of rights or warrants to all holders of Common Shares entitling them to acquire Common Shares or other securities exchangeable or convertible into Common Shares at less than the then current market price (as defined in the Indenture) of the Common Shares; and

(e) the distribution to all holders of Common Shares of any securities or assets (other than cash dividends, Common Shares, securities exchangeable or convertible into Common Shares or rights or warrants referred to in (c) and (d) above).

Except as stated in this paragraph, no adjustment will be made as a result of the issuance of Common Shares at less than either the then current market price or conversion price then in effect.

No certificate for a fraction of a Common Share shall be issued on conversion but in lieu thereof, Daon will make a cash payment equal to the then current market value of the fraction (determined as to be provided in the Indenture).

In the event Daon proposes to pay any stock dividend on Common Shares or to make any other distribution on Common Shares, other than cash dividends or stock dividends in lieu thereof, or to issue rights or warrants to the holders of Common Shares, it will give notice thereof to the Convertible Debentureholders not less than 14 days prior to the applicable record date setting forth such particulars of such dividend, distribution, rights or warrants as shall have been determined at the date such notice is given.

The conversion price will be readjusted automatically on the expiration or change in any subscription or similar privilege attaching to securities for which an adjustment has previously been made. No adjustment in the

conversion price will be required unless the cumulative effect of such adjustment or adjustments would alter the conversion price then in effect by at least 1%.

Upon conversion of any Convertible Debenture Daon shall make no payment or adjustment on account of any accrued interest on such Convertible Debenture or on account of any dividends on the Common Shares issuable on such conversion.

The Convertible Debentures may be presented for conversion at the principal office of Crown Trust Company in Montreal, Toronto, Winnipeg, Calgary and Vancouver and at the principal offices of its agent, Canada Permanent Trust Company, in Halifax and Regina.

Redemption

The Convertible Debentures will not be redeemable on or before January 31, 1982. Thereafter and prior to January 31, 1986 the Convertible Debentures will not be redeemable unless Daon shall have filed with the Trustee, on or before the day that notice of such redemption is first given, a certificate that the weighted average price at which the Common Shares have traded on The Toronto Stock Exchange during 20 consecutive trading days ending not more than five trading days preceding the date on which notice of redemption is given was not less than the following percentages of the conversion price in effect on the date of the filing of such certificate: if redeemed in the 12 months ending January 31, 1983 — 150%; if redeemed in the 12 months ending January 31, 1984 — 140%; if redeemed in the 12 months ending January 31, 1985 — 130%; and if redeemed in the 12 months ending January 31, 1986 — 120%. Subject to the foregoing, the Convertible Debentures will be redeemable, for other than sinking fund purposes, prior to maturity in whole at any time or in part from time to time at the option of Daon on not less than 30 days' prior notice at prices equal to the following percentages of the principal amount thereof plus in each case accrued interest to the date specified for redemption. In case of partial redemption, the Convertible Debentures to be redeemed shall be selected by lot in such manner as the Trustee may deem equitable.

If redeemed in the 12 months ending January 31,	Percentage	If redeemed in the 12 months ending January 31,	Percentage
1983	110.15%	1993	104.15%
1984	109.55	1994	103.55
1985	108.95	1995	102.95
1986	108.35	1996	102.35
1987	107.75	1997	101.75
1988	107.15	1998	101.15
1989	106.55	1999	100.55
1990	105.95	2000	100.00
1991	105.35	2001	100.00
1992	104.75		

Purchase for Cancellation

Daon will have the right to purchase Convertible Debentures in the market or by call for tenders to all Convertible Debentureholders at prices not exceeding 110.15% of the principal amount prior to January 31, 1982 and after that at prices not exceeding the redemption price in effect at the time of the purchase, together in each case with accrued interest and costs of purchase.

If, upon an invitation for tenders to all the Convertible Debentureholders, Daon receives more tenders of Convertible Debentures at the same lowest price than it is prepared to accept, the Convertible Debentures to be purchased will be selected by lot in such manner as the Trustee may deem equitable from the Convertible Debentures of each Convertible Debentureholder that tendered at such lowest price.

Sinking Funds

Daon will covenant in the Indenture to make payments to the Trustee, as and by way of a mandatory sinking fund, sufficient to retire on January 31 in each of the years 1992 to 2000, inclusive, 5% of the aggregate principal amount of the Convertible Debentures outstanding on February 1, 1991.

In addition to mandatory sinking fund payments, Daon will have the non-cumulative right to make additional sinking fund payments to the Trustee sufficient to retire on January 31 in each of the years 1992 to 2000, inclusive, up to 2% of the aggregate principal amount of Convertible Debentures outstanding on February 1, 1991.

The Convertible Debentures will be redeemable for both mandatory and optional sinking fund purposes at the principal amount thereof plus accrued interest to the date fixed for redemption. Convertible Debentures purchased or redeemed by Daon, other than for sinking fund purposes, after January 31, 1991, will be available to Daon as a credit equal to the principal amount thereof which may be applied to the satisfaction in whole or in part of mandatory sinking fund obligations.

Subordination

The payment of the principal of and interest and redemption premium, if any, on the Convertible Debentures will be subordinated to the prior payment in full of all Prior Indebtedness, whether outstanding on the date of the Indenture or thereafter incurred. Upon any distribution of the assets of Daon upon or in connection with any partial or total liquidation or any reorganization or insolvency of Daon, the holders of all Prior Indebtedness will be entitled to receive payment in full before the holders of the Convertible Debentures are entitled to receive any payment.

Prior Indebtedness will be defined, in effect, as and to include all items of indebtedness (other than liability for deferred income taxes and capitalized leases) which in accordance with generally accepted accounting principles would be included in determining total liabilities as shown on the liability side of a balance sheet as at the date as of which Prior Indebtedness is to be determined, but in any event including, without limitation, (a) obligations secured by any mortgage, hypothec, pledge, charge, lien or other encumbrance on property owned, whether or not the obligations secured thereby shall have been assumed, and (b) guarantees, endorsements (other than endorsements for collection in the ordinary course of business) and other contingent obligations in respect of, or any obligations to purchase or otherwise acquire or service, obligations of others, unless it is provided by the terms of the instrument creating or evidencing such indebtedness that such indebtedness is not superior in right of payment to the Convertible Debentures.

Notwithstanding the subordination provisions:

(a) Daon may at any time make payments of principal of and interest and redemption premium, if any, on the Convertible Debentures except during any such liquidation, reorganization or insolvency and except when any Prior Indebtedness is in default; and

(b) the Trustee may apply any monies deposited with it to the payment of the principal of and interest and redemption premium, if any, on the Convertible Debentures.

Restrictive Covenant

So long as any Convertible Debentures are outstanding, Daon shall not, without the prior approval of the holders of the Convertible Debentures:

(a) declare or pay any dividend (other than a stock dividend) on any shares of Daon; or

(b) redeem, purchase, reduce or otherwise pay off, or permit any subsidiary of Daon to purchase, or make any distribution of the assets or property of Daon upon any shares of Daon;

in either case, unless, as at the date of the specific authorization by the directors of Daon of any such action or, in the absence of any such specific authorization, as at the date of any such action, and, in either case, after giving effect thereto, either (1) Consolidated Net Tangible Assets (defined to mean the sum of the principal amount of the Convertible Debentures outstanding, paid-up capital, retained earnings or deficit, surplus and deferred income resulting from certain real estate transactions of Daon and its subsidiaries determined in accordance with generally accepted accounting principles, less the amount of intangible assets of Daon and its subsidiaries and shares of Daon held by its subsidiaries and after eliminating all adjustments arising from write-ups of assets) would be not less than 2½ times or (2) Adjusted Consolidated Net Tangible Assets (defined to mean Consolidated Net Tangible Assets plus a portion of the excess, adjusted for income and withholding taxes, of market values of the real estate and certain other assets of Daon and its subsidiaries over their respective net book values) would be not less than 3 times, the aggregate of the principal amount then outstanding on the Convertible Debentures.

This covenant will not operate to prevent any such action to the extent payment or distribution is made out of the net cash proceeds of a substantially contemporaneous issue of shares or from paying fixed cumulative dividends on or satisfying mandatory retirement provisions attaching to any class of shares not issued as a stock dividend if such mandatory retirement provisions do not call for the retirement of such shares in any consecutive 12 month period in excess of 5% of the largest number of such shares at any time theretofore issued and outstanding.

Income Tax Effects of Conversion

Under the Income Tax Act (Canada) (the "Act") and present administrative policy of the Department of National Revenue, a taxpayer who holds a Convertible Debenture as capital property and who acquires Common Shares in exchange for such Convertible Debenture pursuant to the right to make such exchange conferred by the terms of such Convertible Debenture will not be considered to have disposed of the Convertible Debenture by virtue of the conversion and will recognize no capital gain or capital loss in respect thereof. For the purpose of the Act, the cost of the Common Shares acquired on the exchange will be equal to the adjusted cost base of such Convertible Debenture immediately before the exchange.

The foregoing is a general statement only of the implication of the exchange under the Act as now in effect. It is not intended to constitute advice to any particular taxpayer. A prospective investor should seek independent advice regarding the tax consequences to him of making the exchange.

Modification

The rights of the Convertible Debentureholders may be modified. For that purpose, among others, the Indenture will contain provisions which will make binding on all Convertible Debentureholders resolutions passed at meetings of the Convertible Debentureholders by not less than $66^2/_3\%$ of the votes cast thereat, or rendered by instruments in writing signed by the holders of not less than $66^2/_3\%$ of the outstanding principal amount of the Convertible Debentures.

OTHER DEBENTURES OF THE COMPANY

Reference is made to Note 10 to the Consolidated Financial Statements for a summary of the principal terms of these debentures and to "Consolidated Capitalization".

Daon

Bank Indebtedness

Daon has issued demand debentures to its bankers pursuant to a trust indenture dated as of August 1, 1977, between Daon and The Royal Trust Company, as trustee, as amended and supplemented by one indenture supplemental thereto. These debentures are secured by a floating charge on the assets and undertaking of Daon (other than shares of, and indebtedness owing to Daon by, subsidiaries).

Debentures

Daon's debentures (the "Debentures") are issued under and are secured by a floating charge on the assets and undertaking of Daon (but not on the assets of any subsidiary) created by a trust indenture dated as of February 12, 1970, and made between Daon and National Trust Company, Limited, as trustee, as amended and supplemented by twelve indentures supplemental thereto (the "Debenture Indenture").

The Debentures have been issued in 10 series, seven of which are presently outstanding; see "Consolidated Capitalization".

The Debenture Indenture permits Daon to issue Debentures in unlimited amounts, subject to certain restrictions contained in the Debenture Indenture. All Debentures issued and to be issued under the Debenture Indenture rank pari passu except for sinking funds applicable to specific series of Debentures.

The Debenture Indenture contains covenants restricting the creation, assumption or guarantee of certain secured indebtedness, the payment of dividends or the making of other distributions on shares of Daon, particulars of which are set forth under "Dividend Restrictions", the sale of indebtedness and shares of subsidiaries and other covenants.

Floating Rate Debenture

Daon has issued a single floating rate debenture dated as of October 22, 1980, which is secured by a floating charge on the assets and undertaking of Daon (other than shares of, or indebtedness owing to Daon by, "foreign subsidiaries").

Daon Corporation

Floating Rate Subordinated Debenture, Series A

Daon Corporation has issued an unsecured subordinated debenture under an indenture dated as of October 15, 1979, and made between Daon Corporation and Crocker National Bank, as trustee.

This debenture was issued pursuant to a debenture purchase agreement dated October 25, 1979, between Daon Corporation and a Canadian chartered bank which provides, among other things, that Daon Corporation may not issue or become liable on any other debenture ranking prior to or pari passu with such debenture except with the consent of such Canadian chartered bank or for the purpose of redeeming such debenture. Daon has agreed that it will, at the request of such holder or under certain other conditions, purchase the debenture by November 1, 1981.

This indenture contains covenants substantially similar to those contained in the Debenture Indenture.

SHARE CAPITAL OF DAON

The authorized share capital of Daon consists of:

(a) 80,000,000 Common Shares without par value (the "Common Shares");

(b) 2,000,000 75¢ Class A Shares without par value (the "Class A Shares"); and

(c) 10,000,000 Preference Shares with a par value of $10 each issuable in series of which:

  (i) 2,500,000 have been fixed as the first series and are designated as 8⅝% Cumulative Redeemable Preference Shares, Senior Series A (the "Preference Shares, Series A"); and

  (ii) 1,500,000 have been fixed as the second series and are designated as 9½% Cumulative Redeemable Preference Shares, Senior Series B (the "Preference Shares, Series B").

The following is a summary of certain attributes of the Preference Shares, the Class A Shares and the Common Shares.

Preference Shares

The special rights or restrictions attaching to the Preference Shares, Series A and Series B, include special rights or restrictions entitling the holders thereof to:

(a) fixed cumulative preferential cash dividends (or, in the case of Preference Shares, Series B on which the holders have elected to receive dividends in the form of Common Shares in lieu of cash dividends, fixed cumulative preferential dividends in the form of Common Shares) in priority to any dividends on the Class A Shares and the Common Shares; and

(b) priority over the Class A Shares and the Common Shares in the event of the distribution of the assets of Daon in connection with the dissolution of Daon to the extent of the par value of the Preference Shares, Series A and Series B, and accrued dividends thereon.

Class A Shares

Holders of Class A Shares are entitled to annual fixed, cumulative, preferential cash dividends of 75¢ per share and may require Daon to redeem such shares on October 31, 1985, at $6.00 per share.

Common Shares

Holders of Common Shares are entitled to one vote per share at all meetings of members of Daon , to receive pro rata such dividends as may from time to time be declared by the board of directors of Daon on the Common Shares and, in the event of the distribution of the assets of Daon in connection with the dissolution of Daon, to receive pro rata the remaining property of Daon. Holders of Common Shares may elect to receive dividends in the form of additional Common Shares in lieu of cash dividends.

Dividend Restrictions

Under the terms of the Debenture Indenture, subject to certain exceptions, Daon may not declare or pay any dividends or purchase or redeem any of its shares if, after such action, shareholders' equity and aggregate appraisal surplus (each as defined therein) would be reduced below certain prescribed amounts. As of the date hereof, under the most restrictive provision, Daon may not declare or pay any dividends or purchase or redeem its shares unless, after such action, such shareholders' equity and aggregate appraisal surplus was not less than $85,304,000. At October 31, 1980, such shareholders' equity and aggregate appraisal surplus was not less than $206,362,000.

Under the special rights or restrictions attaching to the Preference Shares, Series A and Series B, subject to certain exceptions, Daon may not declare or pay any dividends, or redeem, purchase, reduce or otherwise pay off any shares ranking junior to the Preference Shares, Series A and/or Series B with respect to payment of dividends or on liquidation, dissolution or winding-up unless:

(a) all cumulative dividends then outstanding on the Preference Shares, Series A and Series B, shall have been paid; and

(b) after such action, either consolidated net tangible assets or adjusted consolidated net tangible assets (each as defined therein) would be not less than certain prescribed amounts.

At present Daon may not declare or pay any dividends, or redeem, purchase, reduce or otherwise pay off any such shares unless, after such action, either such consolidated net tangible assets would be not less than $95,937,000 or such adjusted consolidated net tangible assets would not be less than $115,125,000. At October 31, 1980, such consolidated net tangible assets were not less than $156,172,000 and such adjusted consolidated net tangible assets were not less than $330,476,000.

ELIGIBILITY FOR INVESTMENT

In the opinion of counsel, the Convertible Debentures will, at the date of delivery, be investments:

(a) in which the Canadian and British Insurance Companies Act (Canada) states that a company registered under Part III thereof may invest its funds without availing itself for that purpose of the provisions of subsection (4) of section 63 of the said Act;

(b) in which the Trust Companies Act (Canada) states that a trust company subject to the said Act may invest its own funds without availing itself for that purpose of the provisions of subsection (6) of section 68 of the said Act;

(c) in which The Loan and Trust Corporations Act (Ontario) states that a loan corporation registered thereunder may invest its funds without availing itself for that purpose of the provisions of section 151 of the said Act and that a trust company registered thereunder may invest its own funds without availing itself for that purpose of the provisions of section 154 of the said Act;

(d) in which The Insurance Act (Ontario) states that an insurer as defined in Part XVII of the said Act may invest its funds without availing itself for that purpose, in the case of such insurers which are joint stock companies or cash-mutual insurance corporations, of the provisions of subsection (4) of section 383 of the said Act;

(e) in which the Loan Companies Act (Canada) states that a company to which the said Act applies may invest its funds without availing itself for that purpose of the provisions of subsection (5) of section 60 of the said Act;

(f) in which Schedule III to the Regulations under the Pension Benefits Standards Act (Canada) states that a pension plan registered under the said Act may invest its funds without availing itself for that purpose of the provisions of section 4 of the said Schedule III;

(g) in which the Regulations under The Pension Benefits Act (Ontario) state that the funds of a pension plan registered under the said Act may be invested without resorting to the provisions of subsection (4) of section 14 of the said Regulations;

(h) which are qualified investments for a trust governed by a registered retirement savings plan or a registered home ownership savings plan under the Income Tax Act (Canada);

(i) in which insurance companies incorporated under the laws of Quebec (other than mutual associations) may, under An Act respecting Insurance (Quebec), invest their funds without resorting to the provisions of section 256 of the said Act;

(j) in which the Regulations under the Supplemental Pension Plans Act (Quebec) state that the assets of a plan registered under the said Act may be invested without resorting to the provisions of section 6.17 of the said Regulations; and

(k) in which the Charter of the Quebec Deposit and Investment Fund states that the said Fund may invest its funds without resorting to the provisions of section 31 of the said Charter but subject to the limitations as to amount set forth in section 24 thereof.

COMMON SHARE PURCHASE PROGRAM

The Company has a Common Share purchase program under which it expends approximately 10% of its net income for the immediately preceding financial year for the purchase of its Common Shares in the open market. Common Shares are purchased only during the period in each financial quarter following the publication of the Company's quarterly or annual report, as the case may be, and terminating the last day of the financial quarter. The purchase program began in September, 1977. To October 31, 1980, the Company has purchased 3,940,000 Common Shares for an aggregate consideration of $9,003,000 under the purchase program. During the year ended October 31, 1980, 540,000 Common Shares were purchased by the Company at an average cost of $8.16 per Common Share. The Company has not purchased any Common Shares since October 31, 1980.

INTEREST COVERAGE

The following table shows the extent to which income of Daon for the 12 months ended October 31, 1980, was available for the payment of interest for the period on debt of Daon, after giving effect to the issue of the Convertible Debentures. The income of Daon includes the net income of its subsidiaries after deducting withholding taxes payable if a dividend equal to the net income of such subsidiaries were paid ("net dividend income") amounting to $28,494,000.

Income of Daon, before income taxes and interest expensed on all debt of Daon (1), plus net dividend income	$111,768,000
Interest on all debt of Daon (2)	$ 75,120,000
Coverage	1.49 times

NOTES:

(1) After adding back $13,775,000 interest included in cost of real estate sales and capitalized prior to the date of sale.

(2) Includes interest capitalized of $36,478,000, a significant portion of which is provided by financing activities.

The following table shows the extent to which income of Daon, together with net dividend income, for the 12 months ended October 31, 1980, was available for the payment of interest on the Convertible Debentures:

Income of Daon, before income taxes, plus net dividend income	$64,726,000
Interest on the Convertible Debentures	$ 5,375,000
Coverage	12.04 times

ASSET COVERAGE

Consolidated net tangible assets of the Company as reflected in the consolidated balance sheet as at October 31, 1980, after giving effect to the issue of the Convertible Debentures, were as follows:

Without net market value of assets (1)	With deduction of deferred income taxes	Without deduction of deferred income taxes
Consolidated total assets	$1,674,218,000	$1,674,218,000
Less: Intangible assets	3,011,000	3,011,000
Consolidated tangible assets	1,671,207,000	1,671,207,000
Add: Estimated net proceeds from this issue	48,175,000	48,175,000
Pro forma consolidated tangible assets	1,719,382,000	1,719,382,000
Less: Consolidated liabilities other than long-term debt of Daon (with an original term of more than 36 months)	1,290,208,000	1,233,951,000
Pro forma consolidated net tangible assets available for long-term debt of Daon (with an original term of more than 36 months)	429,174,000	485,431,000
Less: Long-term debt of Daon (with an original term of more than 36 months) other than Convertible Debentures	224,827,000	224,827,000
Pro forma consolidated net tangible assets available for the Convertible Debentures	$ 204,347,000	$ 260,604,000

Pro forma consolidated net tangible assets (without net market value of assets) are equivalent to $1,562 ($1,766 without deduction of deferred income taxes of Daon) for each $1,000 principal amount of the $274,827,000 aggregate principal amount of long-term debt of Daon (with an original term of more than 36 months), and $4,087 ($5,212 without deduction of such deferred income taxes) for each $1,000 principal amount of Convertible Debentures to be outstanding.

With net market value of assets as of October 31, 1980, of $234,514,000 (1)(2)	
Pro forma consolidated net tangible assets available for long-term debt of Daon (with an original term of more than 36 months)	$663,688,000
Less: Long-term debt of Daon (with an original term of more than 36 months) other than the Convertible Debentures	224,827,000
Pro forma consolidated net tangible assets available for the Convertible Debentures	$438,861,000

NOTES:

(1) "Net market value of assets" is the aggregate of the excess (or deficiency) of the market value of each real estate property held by the Company over its net book value ("appraisal surplus") and the excess (or deficiency) of the quoted market value of marketable securities and investments owned by the Company over their cost less estimated income taxes that would be payable on an amount of income equal to such appraisal surplus and excess assuming no reinvestment of such amount. "Appraisal surplus" as used herein is not "Appraisal Surplus" as to be defined in the Indenture under which the Convertible Debentures will be issued.

(2) Amounts with deduction and without deduction of deferred income taxes are the same.

With net appraisal surplus, pro forma consolidated net tangible assets are equivalent to $2,415 for each $1,000 principal amount of such long-term debt, and $8,777 for each $1,000 principal amount of Convertible Debentures to be outstanding.

USE OF PROCEEDS

The estimated net proceeds to be received by the Company from the sale of the Convertible Debentures will amount to $48,175,000 after deduction of underwriting commission and estimated expenses of the issue. The net proceeds will be added to the working capital of the Company and used to reduce or retire indebtedness incurred in the ordinary course of business and having higher interest rates or used for the acquisition and development of real estate and until so used, the net proceeds may be invested in marketable securities.

PLAN OF DISTRIBUTION

Under an agreement dated February 2, 1981, between Daon and McLeod Young Weir Limited, Greenshields Incorporated, Pemberton Securities Limited and Midland Doherty Limited (the "Underwriters"), Daon has agreed to sell and the Underwriters have agreed to purchase on February 24, 1981, or such other date not later than March 10, 1981, as may be agreed upon, subject to the terms and conditions contained therein, all, but not less than all, the $50,000,000 aggregate principal amount of Convertible Debentures at a price of $50,000,000 plus accrued interest, if any, to the date of delivery, payable to Daon against delivery of the Convertible Debentures. Daon has agreed to pay the Underwriters a commission of $1,575,000. The obligations of the Underwriters to take up the Convertible Debentures are several but not joint and may be terminated at their respective options on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters, however, are obligated to take up and pay for all the Convertible Debentures if any Convertible Debentures are purchased under such agreement.

In connection with this offering the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Convertible Debentures and the Common Shares at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

LEGAL PROCEEDINGS

In the opinion of the Company, there are no material legal proceedings pending or known to be contemplated to which the Company is a party or its property is subject.

MANAGEMENT AND SHAREHOLDERS

Directors and Officers

The names and municipalities of residence of the directors and officers of Daon, the offices held by them and their principal occupations are as follows:

Name and Municipality of Residence	Office	Principal Occupation
GRAHAM RUSSELL DAWSON, Vancouver, British Columbia	Chairman of the Board and Director	President, Dawson Construction Limited (general construction)
JOHN WILSON POOLE, West Vancouver, British Columbia	President and Chief Executive Officer and Director	President and Chief Executive Officer, Daon and Chairman and Chief Executive Officer, Daon Corporation
WILLIAM HOWARD LEVINE, Vancouver, British Columbia	Executive Vice President and Director	Executive Vice President, Daon and President, Daon Corporation
RUSSELL ARTHUR LEO NUNN, Calgary, Alberta	Senior Vice President and Director	Senior Vice President, Daon
MACDONALD CAMPBELL, North Vancouver, British Columbia	Senior Vice President and Chief Financial Officer and Director	Senior Vice President and Chief Financial Officer, Daon
WILLIAM JOHN CORCORAN, Kleinburg, Ontario	Director	President, W. J. Corcoran Company Ltd. (investment consultant)
RODERICK MACLAREN HUNGERFORD, Vancouver, British Columbia	Director	President, Flex-Lox Industries Ltd. (manufacturer of plastic pipe)
EDGAR FOSBURGH KAISER, JR., Vancouver, British Columbia	Director	Chairman, Kaiser Steel Corporation (steel manufacturer)
WILLIAM BRUCE LAURIE, Vancouver, British Columbia	Director	Executive Vice President and Secretary, Dawson Construction Limited (general construction)
GEORGE BEVERLY MCKEEN, Vancouver, British Columbia	Director	President, McKeen & Wilson Ltd. (investment company)
RICHARD CARLILE BENMORE, Vancouver, British Columbia	Vice President, Financial Controls and Treasurer	Vice President, Financial Controls and Treasurer, Daon
WOLF BERGELT, West Vancouver, British Columbia	Vice President Financial Accounting	Vice President, Financial Accounting, Daon
JAMES HOWAT FINDLAY, Vancouver, British Columbia	Vice President, Administration and Secretary	Vice President, Administration and Secretary, Daon
RAYMOND JOHN LANGRISH, Richmond, British Columbia	Vice President and Senior Controller	Vice President and Senior Controller, Daon
JONATHAN HUGH BEAUMONT REES, West Vancouver, British Columbia	Vice President, Operations Accounting	Vice President, Operations Accounting, Daon
GEORGE CONRAD REIFEL, Vancouver, British Columbia	Vice President, Corporate Finance	Vice President, Corporate Finance, Daon
JUNE ELIZABETH VASSOS, Vancouver, British Columbia	Assistant Secretary	Assistant Secretary, Daon

During the past five years all directors and officers of Daon have been associated in various capacities with the Company or the companies indicated opposite their names, except that: prior to August, 1978, Mr. Corcoran was a director and Vice President of McLeod Young Weir Limited; prior to November, 1980, Mr. Kaiser was Chairman and Chief Executive Officer of Kaiser Resources Ltd.; prior to February, 1977, Mr. Benmore was a

chartered accountant with Arthur Andersen & Co.; prior to September, 1980, Mr. Bergelt was a chartered accountant with Arthur Andersen & Co.; prior to February, 1979, Mr. Findlay was Corporate Secretary and Director of Human Resources, Moore Corporation Limited; prior to March, 1977, Mr. Rees was a chartered accountant with Arthur Andersen & Co.; prior to May, 1976, Mr. Reifel was a university student; and prior to May, 1976, Ms. Vassos was Assistant to the City Administrator, City of North Vancouver, British Columbia.

Remuneration

The following table shows the aggregate remuneration paid or payable by the Company in the last complete financial year of the Company to the directors, the five senior officers in receipt of the largest amount of remuneration and the officers who received remuneration in excess of $50,000 (including the said five officers) of Daon:

	Aggregate Remuneration	Cost of Pension Benefits	Other
Directors (11) (in their capacity as such)	$ 154,565	$ —	$ —
Five senior officers	1,639,232	14,000	—
Officers receiving over $50,000 (10) (including the five senior officers above)	2,093,265	25,158	—

The aggregate direct remuneration paid or payable by the Company to the directors and the senior officers of Daon in the last completed financial year of the Company was $2,291,000.

The estimated aggregate cost to the Company in the last completed financial year of all pension benefits proposed to be paid, directly or indirectly, by the Company to directors and senior officers of Daon in the event of retirement at normal retirement age was $25,158.

Indebtedness

The largest amounts of indebtedness to the Company outstanding at any time since the beginning of the last completed financial year of the Company by directors and senior officers of Daon and the amounts outstanding at present are as follows: Wolf Bergelt, Vice President, Financial Accounting (West Vancouver, B.C.), $50,000, (at present $50,000); MacDonald Campbell, Director and Senior Vice President and Chief Financial Officer (North Vancouver, B.C.), $247,275, (at present $247,275); James Howat Findlay, Vice President, Administration and Secretary (Vancouver, B.C.), $50,000, (at present $50,000); William Howard Levine, Director and Executive Vice President (Vancouver, B.C.), $162,500, (at present nil); John Wilson Poole, Director, President and Chief Executive Officer (West Vancouver, B.C.), $124,000, (at present nil); Russell Arthur Leo Nunn, Director and Senior Vice President (Calgary, Alta.), $98,750, (at present $98,750); and James Diehl Stout, formerly, Director and Senior Vice President (Corona del Mar, California), $150,000 and $232,820 (U.S.), (at present $150,000 and $150,000 (U.S.)). The total indebtedness of Mr. Campbell, Mr. Nunn, Mr. Levine and $150,000 of the indebtedness of Mr. Stout represent loans made to each of them under an employee stock purchase program of the Company to enable them to purchase Common Shares of Daon as follows:

Name	Number of Common Shares (1)	Date of Purchase	Price Per Common Share (1)
M. Campbell	86,400	June 27, 1975	$0.2578
M. Campbell	72,000	March 7, 1979	3.125
W. H. Levine	800,000	January 8, 1973	0.2031
R. A. L. Nunn	320,000	January 8, 1973	0.2031
R. A. L. Nunn	160,000	January 10, 1974	0.2109
J. D. Stout	60,000	August 3, 1979	2.50

NOTE:
(1) Adjusted to give effect to the reorganization of capital and subdivisions of Common Shares referred to in Note 8 under "Consolidated Capitalization".

These loans to purchase Common Shares are interest free, are secured by a pledge of such Common Shares and are repayable, in the case of Mr. Nunn, as to $65,000 thereof by December 15, 1982, and as to $33,750 thereof by December 31, 1983, and in the case of Mr. Campbell, as to $22,275 thereof by June 30, 1985, and as to $225,000 thereof by December 31, 1988, and in the case of Mr. Stout, on demand. The indebtedness of Mr. Levine has been repaid.

The indebtedness of Mr. Bergelt, Mr. Findlay and Mr. Poole, and $150,000 (U.S.) of the indebtedness of Mr. Stout, represent loans made to each of them to assist each to purchase or erect dwelling houses for their own occupation. The indebtedness of Mr. Bergelt is unsecured, is repayable on demand and bears interest at 6% per annum. The indebtedness of Mr. Findlay is unsecured and is repayable, without interest, in stated annual instalments by April, 1989. The indebtedness of Mr. Poole did not bear interest and has been repaid. This indebtedness of Mr. Stout is secured by a second mortgage of the property purchased or erected with the proceeds of such loan and is repayable, without interest, on demand. The balance of the indebtedness of Mr. Stout ($82,820 (U.S.)) represented a loan to Mr. Stout to enable him to purchase an additional 72,000 Common Shares of Daon on July 8, 1977, at $1.25 per Common Share (adjusted for the reorganization of capital and subdivisions of Common Shares). This loan bore interest at 1% per annum over the prime rate of a California bank, was secured by a pledge of the Common Shares purchased and has been repaid.

Principal Shareholders

At December 15, 1980, the number of Common Shares of Daon owned, of record or beneficially, directly or indirectly, by each person or company who owned of record, or was known by Daon to own, beneficially, directly or indirectly, more than 10% of the outstanding Common Shares of Daon was as follows:

Name and Municipality of Residence	Number of Common Shares	Percentage of Class (1)
John Wilson Poole (2) .... West Vancouver, British Columbia	8,109,400	22.75%
Graham Russell Dawson (3) .... Vancouver, British Columbia	6,784,387	19.03%

NOTES:

(1) This percentage is determined after the deduction of 3,940,000 Common Shares representing 9.95% of Daon's outstanding Common Shares, held by a wholly-owned subsidiary of Daon.

(2) Of the Common Shares shown as owned by Mr. Poole, 7,900,000 are owned by J. Poole Holdings Ltd. and other corporations of which Mr. Poole is the only shareholder, and the balance are owned by Mr. Poole.

(3) Of the Common Shares shown as owned by Mr. Dawson, 6,735,776 are owned by G. R. Dawson Holdings Limited of which Mr. Dawson is the controlling shareholder, and the balance are owned by Mr. Dawson. In addition, Mrs. G. R. Dawson, wife of Mr. Dawson, owns 1,249,263 Common Shares of Daon.

At December 15, 1980, the directors and officers of Daon and their associates and affiliates owned, directly or indirectly, of record or beneficially, in the aggregate, 19,504,090 Common Shares representing approximately 54% of the outstanding Common Shares (after deduction of 3,940,000 Common Shares held by a wholly-owned subsidiary of Daon).

At December 15, 1980, the partners of Shrum, Liddle & Hebenton owned eight Class A Limited Partnership Units in Daon Shopping Centres, Alberta and partners of Lawson, Lundell, Lawson & McIntosh owned 1,700 Common Shares and $4,000 principal amount of Series F Debentures of Daon and one Class A Limited Partnership Unit in Daon Shopping Centres, Alberta.

Options to Purchase Common Shares

At December 23, 1980, the following options to purchase Common Shares of Daon were outstanding:

	Number of Common Shares	Exercise Price per Common Share	Market Value per Common Share at Date of Grant	Expiry Date
Held by senior officers of Daon (7)	260,000	$7.77	$8.625	July 13, 1990
Held by directors and senior officers of subsidiaries of Daon	130,000	7.77	8.625	July 13, 1990
	14,400	1.844	1.844	March 31, 1981
Held by all other employees of Daon	215,000	7.77	8.625	July 13, 1990
Held by all other employees of subsidiaries of Daon	220,000	7.77	8.625	July 13, 1990

On January 30, 1981, the closing price of the Common Shares of Daon on The Toronto Stock Exchange was $12.00 per share.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The following is a brief description of any material interest, direct or indirect, of any director or senior officer, or their associates or affiliates, in any material transaction with the Company since October 31, 1977:

1. From November 1, 1977 to October 31, 1980, the Company has paid Dawson Construction Limited and/or its subsidiary company, Dawson & Hall Ltd. $14,686,000 in connection with the construction of Daon Centre in Vancouver, British Columbia and certain improvements made by the Company therein. Graham Dawson, Chairman of the Board of Directors and a principal shareholder of Daon is president and (through G. R. Dawson Holdings Ltd.) principal shareholder of Dawson Construction Limited.
2. From November 1, 1977 to October 31, 1980, the Company has paid $8,683,000 as real estate commissions to Paul J. Stout & Associates in respect of the purchase or sale by the Company of 52 properties, having an aggregate purchase or sale price of $261,827,000. The parents of James Stout, formerly a Director and Senior Vice President of the Company, are the shareholders of Paul J. Stout & Associates. The Company continues to do business with Paul J. Stout & Associates as well as with other real estate brokers. The Company currently leases a Jet Commander aircraft and a Bell Ranger helicopter from Paul J. Stout & Associates. From November 1, 1977 to December 31, 1980, the Company paid $497,000 to Paul J. Stout & Associates in respect of these leases.
3. In the year ended October 31, 1980, the Company purchased a 292 acre parcel of land in San Bernadino County, California for $6,968,000 from Union Steel Company, a wholly-owned subsidiary of Kaiser Steel Corporation. Edgar F. Kaiser, Jr., a Director of the Company, is Chairman of the Board of Directors of Kaiser Steel Corporation.

In the opinion of management, the amounts paid by the Company in respect of each of the foregoing transactions is the fair market value of the property acquired or leased or services rendered.

MATERIAL CONTRACTS

Particulars regarding material contracts entered into by the Company since December 23, 1978, are as follows:

1. the Underwriting Agreement referred to under "Plan of Distribution";
2. the Indenture referred to under "Details of the Offering";
3. an agreement of limited partnership dated July 15, 1980, as amended on July 22, 1980, and, as amended and restated on October 30, 1980, forming Daon Shopping Centres, Alberta; an agreement dated July 22, 1980, whereby Daon sold to Daon Shopping Centres, Alberta (a limited partnership formed under the laws of Alberta) the land upon which three regional shopping centres are being constructed and certain other tangible and intangible property for $36,055,000 in cash and $100,000,000 represented by 750 Class B Limited Partnership Units and 50 Class C Limited Partnership Units; agreements whereby Daon Shopping Centres, Alberta sold 1,421 Class A Limited Partnership Units for $177,625,000 (including 261 Class A Limited Partnership Units purchased by Daon); and an agreement dated November 12, 1980, by which the Company has agreed to provide certain services and indemnities to the limited partnership in connection with the development of these shopping centres; pursuant to these agreements the Company has assured that the partners of the limited partnership holding Class A Limited Partnership Units will receive a minimum return on the amounts invested by them in the limited partnership of 8.57% per annum until December 31, 1983, 9% per annum thereafter until December 31, 1991, and 15% per annum thereafter until December 31, 1996, and that the aggregate costs to the limited partnership of developing these shopping centres and selling the Class A Limited Partnership Units will not exceed $177,625,000;
4. the debenture purchase agreement and the trust indenture referred to under "Floating Rate Subordinated Debenture, Series A" and an agreement dated January 30, 1981, between Daon and the bank which holds the debenture referred to therein whereby Daon has agreed to purchase such debenture at the request of the bank or under certain conditions by November 1, 1981;

5. an agreement dated January 30, 1981, between Daon and a Canadian chartered bank whereby Daon agreed to keep lodged with such bank, cash, investments and marketable securities having at all times a quoted market value of not less than the lesser of $50,000,000 and $40,000,000 (U.S.) together with the shares of Daon held by a wholly-owned subsidiary, so long as certain obligations of Daon to such bank remain outstanding;
6. the trust indenture and the indenture supplemental thereto referred to under "Bank Indebtedness"; and
7. the tenth, eleventh and twelfth supplemental indentures dated as of March 15, 1979, as of April 15, 1979 and as of April 15, 1980, providing for the issuance of the Series I Debenture and the Series J Debenture and making certain modifications to the provisions contained in the trust indenture, as theretofore supplemented and amended, referred to under "Debentures".

Copies of the foregoing contracts referred to in 1, 3, 6 and 7 and, when available, 2, above may be inspected at the head office of Daon during its usual hours of business while the securities offered hereby are in the course of distribution to the public and will be made available for inspection at the offices of the Ontario Securities Commission at 10 Wellesley Street E., Toronto, Ontario.

AUDITORS, TRANSFER AGENTS AND REGISTRARS

The auditors of the Company are Arthur Andersen & Co., Chartered Accountants, 1055 West Hastings Street, Vancouver, British Columbia.

The transfer agent and registrar for the Common Shares of Daon is National Trust Company, Limited at its principal offices located in Montreal, Toronto, Winnipeg, Calgary and Vancouver and through its agent, Canada Permanent Trust Company, in Regina.

The trustee for the holders of the Convertible Debentures is Crown Trust Company. Registers for the transfer of the Convertible Debentures will be maintained by the trustee at its principal offices in Montreal, Toronto, Winnipeg, Calgary and Vancouver and at the principal offices of its agent, Canada Permanent Trust Company, in Halifax and Regina.

DAON DEVELOPMENT CORPORATION

AUDITORS' REPORT

To the Directors,
Daon Development Corporation

We have examined the consolidated balance sheet of DAON DEVELOPMENT CORPORATION (a British Columbia company) and subsidiaries as of October 31, 1980 and 1979, and the related consolidated statements of income, retained earnings, cash flow from operations and changes in financial position for the five years ended October 31, 1980. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Daon Development Corporation and subsidiaries as of October 31, 1980 and 1979, and the results of their operations and changes in financial position for the five years ended October 31, 1980, all in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for translation of investments in foreign operations as explained in Note 24 to the consolidated financial statements.

Vancouver, B.C.
February 2, 1981

ARTHUR ANDERSEN & CO.
Chartered Accountants

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

B. Consolidation

The consolidated financial statements of the Company include:

(i) the accounts of Daon Development Corporation and its subsidiaries.

(ii) the accounts of those incorporated and unincorporated joint ventures and partnerships, to the extent of the Company's interest in their respective assets, liabilities, revenues and expenses.

C. Income recognition

The Company recognizes income as follows:

(i) Sales of land and income producing properties

When the Company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

(ii) Sales of homes

When the sale has been completed and the purchaser is entitled to occupancy.

(iii) Rental

Rental income from each income producing property is recognized in the consolidated statement of income when breakeven cash flow after debt service is achieved. Prior to achieving this level of cash flow the Company capitalizes rental losses as a part of the normal development cost of an income property, subject to not capitalizing costs beyond fair market value of the property and subject to a reasonable maximum lease-up period.

D. Income producing properties

Income producing properties are carried at cost less accumulated depreciation. Depreciation on buildings is provided on the sinking fund basis over a 50-year life for office buildings and shopping centres and a 40-year life for residential and industrial buildings. The sinking fund method provides for a depreciation charge of a fixed annual amount increasing at the rate of 5% per annum, which will result in the cost of the properties being fully depreciated over their estimated useful lives.

E. Properties under development

Properties under development for retention as income producing properties are carried at cost. Each property under development for sale is carried at the lower of its cost and net realizable value.

F. Properties held for future development

Each property held for future development is carried at the lower of its cost and net realizable value.

G. Marketable securities

Marketable securities are carried at the lower of cost and quoted market value. Sales transactions are recorded on settlement dates.

H. Investments

Each investment is carried at cost. Sales transactions are recorded on settlement dates.

I. Capitalization of costs

The Company capitalizes all direct costs relating to properties under development and properties held for future development. In addition, certain indirect costs including specific interest, property taxes and interest on the portion of total costs financed by general corporate borrowings are capitalized. Where overhead costs, including salaries, can be clearly identified with the development of a property, the Company allocates these costs to that property.

J. Depreciation and amortization of other assets

Equipment is depreciated using either the diminishing balance or straight-line method over the estimated useful lives of the assets concerned. Debenture financing costs are amortized over the term of the financing after giving effect to any sinking fund and purchase fund requirements.

K. Foreign exchange

Asset and liability accounts in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the balance sheet dates. Revenue and expenses are translated at weighted average rates prevailing during the year. Gains or losses from exchange translations, other than on the Company's investments in foreign operations, are included in the consolidated statement of income. The gains and losses from exchange translations on the Company's investment in foreign operations are deferred until repayment is imminent, at which time they would be included in the consolidated statement of income.

DAON DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF INCOME

	Note Reference	1980	1979	1978	1977	1976
		Years ended October 31, (in thousands of dollars)				
REVENUE						
Real estate sales		$608,948	$477,955	$308,172	$131,453	$105,483
Rental		45,103	35,662	31,888	20,873	13,958
Other	17	43,910	17,619	7,516	2,981	3,735
Total revenue		697,961	531,236	347,576	155,307	123,176
EXPENSES						
Cost of real estate sales		509,905	386,913	260,744	104,980	87,730
Rental operating costs		23,171	19,208	16,986	10,380	6,437
Interest	18	52,404	31,615	22,921	12,367	7,770
General and administrative		18,510	12,509	8,151	4,855	2,705
Depreciation and amortization		3,533	2,602	2,094	1,058	617
Other		2,453	2,039	4,110	545	2,526
Total expenses		609,976	454,886	315,006	134,185	107,785
INCOME BEFORE INCOME TAXES		87,985	76,350	32,570	21,122	15,391
Income taxes		36,645	34,147	17,088	10,782	7,619
NET INCOME	24	$ 51,340	$ 42,203	$ 15,482	$ 10,340	$ 7,772
EARNINGS PER COMMON SHARE	23	$ 1.32	$ 1.10	$ 0.42	$ 0.27	$ 0.19

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

		1980	1979	1978	1977	1976
		Years ended October 31, (in thousands of dollars)				
Retained earnings, beginning of year	24	$ 79,953	$ 43,691	$ 30,756	$ 21,485	$ 14,367
Net income		51,340	42,203	15,482	10,340	7,772
		131,293	85,894	46,238	31,825	22,139
Dividends—Common Shares		4,316	2,529	1,038	588	—
—Preference Shares		3,460	2,167	—	—	—
—75¢ Class A Shares		478	478	478	481	506
Premium on redemption of shares		—	—	—	—	148
Share issue expenses		37	767	1,031	—	—
		8,291	5,941	2,547	1,069	654
RETAINED EARNINGS, END OF YEAR		$123,002	$ 79,953	$ 43,691	$ 30,756	$ 21,485

DAON DEVELOPMENT CORPORATION

CONSOLIDATED BALANCE SHEET

	Note Reference	October 31, 1980	October 31, 1979
		(in thousands of dollars)	
Assets			
Properties:			
Income producing	1	$ 401,838	$ 345,763
Under development	2	499,037	298,267
Held for future development	3	297,827	203,147
Cash and term deposits	4	180,103	145,786
Marketable securities	5	4,549	12,343
Amounts receivable	6	246,648	177,865
Investments	7	19,163	25,430
Other assets	8	25,053	13,061
		$1,674,218	$1,221,662
Liabilities			
Debt on properties:	9		
Income producing		$ 320,587	$ 276,655
Under development		358,886	219,445
Held for future development		250,140	178,706
Debentures payable	10	154,104	129,576
Other secured liabilities	11	166,949	108,344
Accounts payable and accruals	12	144,923	104,744
Deferred income taxes	13	119,446	83,189
		1,515,035	1,100,659
Shareholders' Equity			
Capital stock	14	45,184	45,646
Retained earnings	24	123,002	79,953
		168,186	125,599
Shares held by subsidiary	15	9,003	4,596
		159,183	121,003
		$1,674,218	$1,221,662

Approved by the Directors:

(Signed) "W. Levine", Director

(Signed) "W. B. Laurie", Director

DAON DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOW FROM OPERATIONS

	Years ended October 31,				
	1980	1979	1978	1977	1976
	(in thousands of dollars)				
Net income	$51,340	$42,203	$15,482	$10,340	$ 7,772
Items not requiring a current outlay of cash—					
Deferred income taxes	36,257	33,938	15,665	10,782	6,818
Depreciation and amortization	3,533	2,602	2,094	1,058	617
Other	94	231	153	81	52
CASH FLOW FROM OPERATIONS	$91,224	$78,974	$33,394	$22,261	$15,259
CASH FLOW PER COMMON SHARE (Note 23)	$ 2.43	$ 2.12	$ 0.91	$ 0.60	$ 0.40

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years ended October 31,				
	1980	1979	1978	1977	1976
	(in thousands of dollars)				
OPERATIONAL ACTIVITIES					
Cash flow from operations	$ 91,224	$ 78,974	$ 33,394	$ 22,261	$ 15,259
Cash flow recovered through sales of properties—					
recovery of real estate costs	509,905	386,913	260,744	104,980	87,730
less debt discharged on properties sold	339,806	248,626	194,725	66,606	72,832
	170,099	138,287	66,019	38,374	14,898
Gross cash flow from operations	261,323	217,261	99,413	60,635	30,157
Cash applied to properties—					
income producing	223,391	236,591	108,881	99,037	26,520
under development	499,699	364,484	237,303	130,181	95,272
held for future development	140,436	151,219	11,711	22,780	17,465
	863,526	752,294	357,895	251,998	139,257
less net proceeds from property debt	594,613	587,120	237,831	191,852	101,013
	268,913	165,174	120,064	60,146	38,244
NET CASH (APPLIED TO) PROVIDED FROM OPERATIONAL ACTIVITIES	(7,590)	52,087	(20,651)	489	(8,087)
OTHER ACTIVITIES					
Net (decrease) increase of marketable securities	(7,794)	12,343	—	—	—
Net (decrease) increase in investments	(6,267)	11,484	1,419	12,527	—
Net increase in other assets	13,759	6,143	3,219	1,264	609
Dividends paid	8,254	5,174	1,516	1,069	506
NET CASH APPLIED TO OTHER ACTIVITIES	(7,952)	(35,144)	(6,154)	(14,860)	(1,115)
CORPORATE FINANCING ACTIVITIES					
Net proceeds from debenture issues	27,500	59,275	28,663	17,240	14,512
less debentures purchased and redeemed	2,736	1,385	413	1,214	1,261
	24,764	57,890	28,250	16,026	13,251
Net proceeds from share issues	397	15,464	24,041	111	64
less-shares purchased by subsidiaries	4,407	1,696	1,182	861	857
-shares purchased and redeemed	896	729	—	—	203
	(4,906)	13,039	22,859	(750)	(996)
Net proceeds from other secured debt	58,605	46,795	30,187	17,846	2,048
Net increase in amounts receivable	(68,783)	(69,675)	(54,549)	(21,397)	(11,416)
Net increase in accounts payable and accruals	40,179	40,855	33,946	7,664	3,728
Net (decrease) increase in bank indebtedness	—	—	—	(700)	700
	30,001	17,975	9,584	3,413	(4,940)
NET CASH PROVIDED FROM CORPORATE FINANCING	49,859	88,904	60,693	18,689	7,315
INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	$ 34,317	$105,847	$ 33,888	$ 4,318	$ (1,887)

DAON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Income producing properties

	1980	1979
	(in thousands of dollars)	
Residential properties	$213,470	$200,009
Office buildings	111,460	76,129
Shopping centres	64,316	61,020
Industrial buildings	15,471	11,389
	404,717	348,547
Accumulated depreciation	2,879	2,784
	$401,838	$345,763

The Company's residential properties consist of 4,872 units (1979 — 6,080 units), of which 3,214 units (1979 — 2,724 units) have the necessary approvals for marketing as condominium or co-operative units. The Company will market these units as such when operating and financial plans warrant.

2. Properties under development

	1980	1979
	(in thousands of dollars)	
Income properties under development:		
Office buildings	$ 54,794	$ 71,587
Shopping centres	61,325	19,409
Industrial buildings	7,033	8,515
Residential	4,372	2,246
	127,524	101,757
Homes for sale	247,540	108,160
Land under development for sale	123,973	88,350
	$499,037	$298,267

3. Properties held for future development

	1980	1979
	(in thousands of dollars)	
Purchase price	$215,130	$148,222
Preliminary development costs	27,993	13,791
Capitalized costs	45,357	23,191
	288,480	185,204
Option deposits and related costs	9,347	17,943
	$297,827	$203,147

4. Cash and term deposits

At October 31, 1980, $30,000,000 (1979 — $28,700,000) is lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

5. Marketable Securities

Marketable securities have quoted market values of $4,572,000 (1979 — $12,391,000) and are lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

6. Amounts receivable

	1980	1979
	(in thousands of dollars)	
Mortgages and agreements for sale	$219,455	$119,774
Amounts due on real estate sales	7,532	43,988
Rents and other tenant charges	2,009	1,954
Secured advances due from joint venture partners	8,258	6,662
Amounts receivable from employees pursuant to stock purchase plans and house mortgage loans, including $722,000 due from certain directors and officers (1979 — $920,000)	886	1,147
Sundry	8,508	4,340
	$246,648	$177,865

The mortgages and agreements for sale yield a weighted average interest rate of 12.3% per annum (1979 — 11.5%).

The due dates of the amounts receivable are as follows:

	(in thousands of dollars)
Years ending October 31, 1981	$116,548
1982	50,299
1983	19,794
1984	30,499
1985	7,067
Subsequent to 1985	22,441
	$246,648

7. Investments

	1980	1979
	(in thousands of dollars)	
Marketable securities acquired for long-term investment, having a quoted market value of $21,501,000 (1979 — $35,734,000)	$ 19,163	$ 25,430

Marketable securities with a quoted market value of $20,282,000 (1979 — $10,368,000) are lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

8. Other Assets

	1980	1979
	(in thousands of dollars)	
Prepaid expenses	$ 4,889	$ 3,811
Equipment and sundry assets, at cost less accumulated depreciation of $2,331,000 (1979 — $1,566,000)	17,153	6,455
Debenture financing and issue expenses, net of accumulated amortization of $884,000 (1979 — $611,000)	3,011	2,795
	$ 25,053	$ 13,061

9. Debt on properties

	1980			1979
	(in thousands of dollars)			
	Long-term Debt	Interim Financing	Total	Total
Income producing	$144,377	$176,210	$320,587	$276,655
Under development	42,797	316,089	358,886	219,445
Held for future development	145,705	104,435	250,140	178,706
	$332,879	$596,734	$929,613	$674,806

Construction loans on income properties under development, which are supported by take-out commitments for long-term financing, are classified as long-term debt, using the interest rates and maturities of the related commitments.

The long-term debt bears interest at a weighted average rate of 9.7% per annum (1979 — 10.0%), with principal repayments due as follows:

	(in thousands of dollars)
Years ending October 31, 1981	$ 68,204
1982	52,835
1983	42,011
1984	20,049
1985	16,008
Subsequent to 1985	133,772
	$332,879

The interim financing is expected to be discharged or replaced by long-term debt as follows:

		(in thousands of dollars)
(a)	To be discharged at the time of sale of property (the Company having purchase commitments as at November 30, 1980 that will result in the discharge of $45,582,000 of the balance outstanding at October 31, 1980)	$144,767
(b)	To be assumed or discharged by purchasers of homes (the Company having arranged commitments from lenders to provide long-term mortgage funds as required by qualified purchasers)	227,863
(c)	To be replaced with long-term debt for which the Company has yet to arrange commitments	68,934
(d)	To be discharged from the proceeds of the sale of limited partnership units in Daon Shopping Centres, Alberta. (See Note 27)	53,726
(e)	To be either replaced by alternative financing for which the Company has yet to arrange commitments, or discharged when due	101,444
		$596,734

10. Debentures payable

	1980	1979
	(in thousands of dollars)	
Daon Development Corporation		
9¾% Sinking Fund Debentures, Series C, maturing April 15, 1994, retractable April 15, 1984	$ 7,803	$ 8,194
11½% Sinking Fund Debentures, Series E, maturing April 1, 1991, retractable October 1, 1982	14,278	14,966
11¼% Sinking Fund Debentures, Series F, maturing March 1, 1997, retractable March 1, 1986	17,397	17,621
11% Sinking Fund Debentures, Series G, maturing February 15, 1998, retractable February 15, 1988	14,225	14,745
11¼% Sinking Fund Debentures, Series H, maturing June 15, 1998, retractable June 15, 1988	14,226	14,775
Floating Rate Debenture, Series I, maturing April 30, 2000, retractable April 30, 1990	9,875	—
Floating Rate Debenture, Series J, maturing April 30, 2000, retractable April 30, 1985	7,500	—
Floating Rate Debenture, maturing November 1, 1981	10,000	—
Daon Corporation (a wholly-owned subsidiary)		
Floating Rate Subordinated Debenture, Series A, due October 15, 1999	58,800	59,275
	$154,104	$129,576

The Debentures, Series C to J, of Daon Development Corporation are secured by a first floating charge, subject to the exceptions permitted by the instruments authorizing the issuance of each series, on the assets of Daon Development Corporation (but not the assets of any subsidiary company). The Series I and Series J debentures bear interest at floating rates which at October 31, 1980 are 13.0% per annum and 11.8% per annum respectively.

The Floating Rate Debenture, maturing November 1, 1981 is a single debenture secured by a floating charge which for some assets ranks prior to the floating charge of the debentures Series C to J and for other assets ranks subsequent to the floating charge of these debentures. This debenture bears interest at a floating rate which at October 31, 1980 is 12.6% per annum.

The Debenture of Daon Corporation is an unsecured obligation of Daon Corporation and carries a floating interest rate which at October 31, 1980 is $11^7/_{16}$% per annum (1979 — 16¼%). This Debenture was issued under a Debenture purchase agreement which provides, among other things, that Daon Development Corporation will, at the request of the debenture holder or under certain conditions, purchase this Debenture by November 1, 1981.

As well as being required to establish a sinking fund for its debentures, the Company is required, subject to certain defined conditions, to establish a purchase fund for certain of its debentures. The maximum amount required to meet sinking fund and purchase fund requirements for the next five years is as follows:

	Sinking Fund	Purchase Fund	Total
	(in thousands of dollars)		
Years ending October 31, 1981	$ 903	$ 648	$ 1,551
1982	3,352	1,840	5,192
1983	4,042	1,440	5,482
1984	4,042	1,440	5,482
1985	3,955	1,440	5,395
	$16,294	$ 6,808	$23,102

11. Other secured liabilities

These interest bearing liabilities, due at various intervals to 1990, are secured by the following non-property assets:

	1980			1979
	(in thousands of dollars)			
	Long-term Debt	Interim Financing	Total	Total
Amounts receivable	$ 19,421	$133,089	$152,510	$ 89,103
Investments	—	—	—	19,241
Other assets	4,802	9,637	14,439	—
	$ 24,223	$142,726	$166,949	$108,344

12. Accounts payable and accruals

	1980	1979
	(in thousands of dollars)	
Accounts payable	$ 48,339	$ 31,096
Accrued liabilities	32,487	19,604
Deferred income and deposits	18,641	15,348
Costs to complete properties sold	40,277	32,476
Deferred foreign exchange gain	5,179	6,220
	$144,923	$104,744

13. Deferred income taxes

The Company follows the tax allocation method of accounting for income taxes under which full provision for income taxes is made on the entire reported income. Deferred income taxes arise primarily from:

(a) the difference between depreciation rates employed for book purposes and those allowed for tax purposes.

(b) income recorded currently for book purposes but reported for tax purposes as the sale proceeds are collected.

(c) income from partnerships recorded currently for book purposes but taxable in later periods.

(d) the capitalization of certain development and carrying costs for book purposes but deducted currently for tax purposes.

14. Capital stock

Authorized — 80,000,000 Common Shares without par value

10,000,000 Preference Shares with a par value of $10 each issuable in series, of which 2,500,000 are designated as 8⅝% Cumulative Redeemable Preference Shares, Senior Series A and 1,500,000 are designated as 9½% Cumulative Redeemable Preference Shares, Senior Series B

2,000,000 75¢ Class A Shares without par value

	1980	1979
	(in thousands of dollars)	
Issued and outstanding		
— 39,583,738 Common Shares	$ 5,765	$ 5,331
2,371,600 8⅝% Cumulative Redeemable Preference Shares, Senior Series A	23,716	24,271
1,465,900 9½% Cumulative Redeemable Preference Shares, Senior Series B	14,659	15,000
641,076 75¢ Class A Shares (redeemable at $6.00 per share at any time)	1,044	1,044
	$ 45,184	$ 45,646

On February 7, 1980, the Company subdivided its issued Common Shares on a two-for-one basis and increased its authorized share capital by 30,195,748 Common Shares. Also on February 7, 1980, the common shareholders approved a resolution allowing common shareholders resident in Canada to receive, upon election, dividends in the form of fully paid Common Shares in lieu of cash dividends. During the year ended October 31, 1980, 60,330 Common Shares were issued for a consideration of $434,000 (1979 — 460,000 shares for $1,231,000). Of the Common Shares issued during this period, 4,800 shares were issued for cash and 55,530 shares were issued in lieu of cash dividends on Common Shares and Preference Shares, Series B.

On July 16, 1980, the Company established a stock option plan under which options to purchase 845,000 Common Shares were granted to certain directors, officers and employees at $7.77. At October 31, 1980, all these options are outstanding and in addition 14,400 Common Shares (1979 — 19,200 Common Shares) are reserved for issue in connection with a previous Company stock option at the then prevailing market price of $1.844.

The Company is entitled to purchase in the open market for cancellation all, or any number of 75¢ Class A Shares at any price and at any time. Each 75¢ Class A Share is redeemable at the shareholder's option on October 31, 1985, at $6.00.

Under the special rights or restrictions attaching to the Preference Shares, Series A and B and, under the terms of the Trust Indenture providing for the issuance of the Daon Development Corporation debentures, the Company may not pay dividends unless certain prescribed requirements are met. In management's opinion, these restrictions will not affect the Company's present dividend policy.

Under the special rights or restrictions attaching to the Preference Shares, Series A and B, the Company is required during each quarter, subject to certain conditions, to purchase for cancellation in the market, 1% of the Preference Shares, Series A outstanding at March 31, 1979, and 1% of the Preference Shares, Series B outstanding at March 31, 1980. During the year ended October 31, 1980, the Company purchased in the open market, 55,500 Preference Shares, Series A for $464,000 and 34,100 Preference Shares, Series B for $308,000 pursuant to this requirement.

15. Shares held by subsidiary

During the year ended October 31, 1980, the Company purchased in the open market, through a subsidiary, 540,000 Common Shares for $4,407,000 (1979 — 226,640 Common Shares for $1,696,000), pursuant to its policy of expending in each fiscal year, under certain conditions, approximately 10% of its consolidated net income for the prior fiscal year to purchase Common Shares of the Company. The subsidiary now holds 3,940,000 Common Shares of the Company at a cost of $9,003,000 (1979 — 3,400,000 Common Shares at a cost of $4,596,000).

16. Contingent liabilities and commitments

(a) The Company is contingently liable for obligations of certain joint ventures and partnerships amounting to $180,297,000 (1979 — $78,011,000). However, the assets of each joint venture or partnership are available and adequate to satisfy the individual obligations of the joint venture or partnership.

(b) The Company has entered into lease agreements for terms of up to 99 years (1979 — 40 years). The maximum annual rental payments required are $4,853,000 (1979 — $1,974,000). The Company has also guaranteed annual payments to a maximum of $6,487,000 (1979 — $5,429,000) in connection with the sale of certain assets; in most instances, the Company has been successful in obtaining leases or subleases that will largely offset the cost of these guarantees.

(c) The Company has contracted costs to complete income properties under development amounting to $143,433,000 (1979 — $108,405,000). The Company has finance commitments for $136,516,000 (1979 — $89,649,000) of these costs.

(d) The estimated cost to complete homes for sale and land under development for sale amounts to $138,567,000 (1979 — $64,917,000). These costs will be financed through the proceeds of sale of these properties or by drawing on finance commitments of $75,626,000 (1979 — $20,286,000).

(e) The earnings of foreign subsidiaries may be subject to withholding taxes when they are distributed, however these taxes have not been provided for as the subsidiaries have no intention of declaring a dividend at this time.

(f) The Company has no unfunded pension liabilities.

17. Other revenue

	Years ended October 31,				
	1980	1979	1978	1977	1976
	(in thousands of dollars)				
Interest and other income	$29,139	$ 7,888	$ 4,396	$ 1,236	$ 913
Management fee income	774	5,242	2,934	67	2,684
Net gain from foreign exchange translations and transactions	—	—	—	1,626	—
Net gain on sales of marketable securities and investments	13,453	2,628	—	—	138
Dividend income	544	1,861	186	52	—
	$43,910	$17,619	$ 7,516	$ 2,981	$ 3,735

18. Interest

	Years ended October 31,				
	1980	1979	1978	1977	1976
	(in thousands of dollars)				
Interest expense consists of the following:					
Interest on long-term debt	$58,784	$29,177	$23,308	$13,635	$ 8,503
Amortization of debenture discounts and other financing expenses	330	231	154	133	52
Bank and other interest	9,452	7,452	3,369	1,643	427
	68,566	36,860	26,831	15,411	8,982
Less—Portion allocated to housing, land and income properties under development	16,162	5,245	3,910	3,044	1,212
	$52,404	$31,615	$22,921	$12,367	$ 7,770

The consolidated income for the years ended October 31, 1980, 1979, 1978, 1977 and 1976 available for the payment of interest on obligations of the Company was $97,992,000, $71,061,000, $36,138,000, $27,833,000 and $22,567,000, respectively.

19. Capitalized costs

During the year the Company capitalized the following indirect costs:

	1980	1979
	(in thousands of dollars)	
Interest—on specific property	$94,537	$ 42,746
—allocated from general corporate borrowings (Note 18)	16,162	5,245
Property taxes, net	299	1,979
Other indirect costs	16,837	8,286
	$127,835	$ 58,256

These costs were capitalized to properties as follows:

	1980	1979
Income properties under development	$ 22,730	$ 15,770
Homes for sale	44,991	14,719
Land under development for sale	29,584	12,453
Land held for future development	30,530	15,314
Capitalized during the year	$127,835	$ 58,256

The following summarizes the flow of capitalized costs through properties under development and held for future development:

	1980	1979
	(in thousands of dollars)	
Balance, beginning of year	$ 50,222	$ 27,829
Capitalized during the year	127,835	58,256
	178,057	86,085
Less—amounts included in cost of real estate sales	56,713	25,647
—amounts transferred to income producing properties	19,609	10,216
Balance, end of year	$101,735	$ 50,222

20. Joint ventures and partnerships

The following amounts included within the consolidated financial statements represent the Company's proportionate share of its interest in joint venture and partnership developments:

	1980	1979
	(in thousands of dollars)	
Assets	$365,703	$112,123
Liabilities	291,342	87,828
Revenue	80,164	40,170
Expenses	70,820	28,401

For the years ended October 31, 1978 and 1977, the proportionate shares of revenue and expenses were $11,951,000 and $9,768,000 for 1978 and $9,137,000 and $5,146,000 for 1977. For the year ended October 31, 1976, the Company's proportionate share of revenue and expenses were not material.

21. Segmented information

The business of the Company is the investment in and development of real estate in Canada and the United States. The operations of the Company can be divided into three segments within this industry: the development, rental and sale of commercial properties, including office buildings, shopping centres and industrial/commercial buildings; the acquisition, development, rental and resale of residential income properties (primarily as condominiums or co-operatives); and the acquisition, development and sale of land. The results of the operations and amounts invested in these segments are as follows:

	Commercial		Residential		Land		Total	
	1980	1979	1980	1979	1980	1979	1980	1979
	(in thousands of dollars)							
Segmented revenue								
Real estate sales	$ 96,493	$ 81,860	$ 322,552	$ 271,826	$ 189,903	$ 124,269	$ 608,948	$ 477,955
Rental	24,891	17,115	20,212	18,547	—	—	45,103	35,662
Total	$ 121,384	$ 98,975	$ 342,764	$ 290,373	$ 189,903	$ 124,269	$ 654,051	$ 513,617
Segmented operating profit								
Real estate sales	$ 19,671	$ 11,276	$ 25,696	$ 43,044	$ 53,676	$ 36,722	$ 99,043	$ 91,042
Rental	13,605	8,660	8,327	7,794	—	—	21,932	16,454
Total	$ 33,276	$ 19,936	$ 34,023	$ 50,838	$ 53,676	$ 36,722	120,975	107,496
Other revenue							43,910	17,619
General and corporate expenses, including interest							(76,900)	(48,765)
Income taxes							(36,645)	(34,147)
Net income							$ 51,340	$ 42,203
Real estate assets	$ 313,060	$ 247,084	$ 463,841	$ 308,596	$ 421,801	$ 291,497	$1,198,702	$ 847,177
Corporate assets							475,516	374,485
Total assets							$1,674,218	$1,221,662

Geographic segments

The following summarizes the Company's operations on a geographic basis. There are no sales of real estate between the two geographic segments.

	Canada		United States		Total	
	1980	1979	1980	1979	1980	1979
			(in thousands of dollars)			
Segmented revenue						
Real estate sales	$ 162,512	$ 130,820	$ 446,436	$ 347,135	$ 608,948	$ 477,955
Rental	27,313	20,369	17,790	15,293	45,103	35,662
Total	$ 189,825	$ 151,189	$ 464,226	$ 362,428	$ 654,051	$ 513,617
Segmented operating profit						
Real estate sales	$ 37,771	$ 32,946	$ 61,272	$ 58,096	$ 99,043	$ 91,042
Rental	14,707	10,304	7,225	6,150	21,932	16,454
Total	$ 52,478	$ 43,250	$ 68,497	$ 64,246	120,975	107,496
Other revenue					43,910	17,619
General and corporate expenses, including interest					(76,900)	(48,765)
Income taxes					(36,645)	(34,147)
Net income					$ 51,340	$ 42,203
Real estate assets						
Commercial	$ 218,913	$ 175,562	$ 94,147	$ 71,522	$ 313,060	$ 247,084
Residential	16,106	31,138	447,735	277,458	463,841	308,596
Land	205,487	138,894	216,314	152,603	421,801	291,497
	$ 440,506	$ 345,594	$ 758,196	$ 501,583	1,198,702	847,177
Corporate assets					475,516	374,485
Total assets					$1,674,218	$1,221,662

22. United States operations

The condensed balance sheet, expressed in Canadian dollars, of the Company's U.S. operations is as follows:

	1980	1979
	(in thousands of dollars)	
Assets		
Properties	$758,196	$501,583
Cash	61,248	108,623
Receivables	164,419	107,815
Other assets	8,094	5,918
	$991,957	$723,939
Liabilities		
Debt on properties	$538,584	$373,615
Accounts payable, accruals and other debt	165,255	120,497
Debenture payable	58,800	59,275
Deferred income taxes	62,665	40,908
Term loan from affiliated company	87,152	71,561
	912,456	665,856
Shareholders' equity		
Share capital	17,640	17,783
Retained earnings	61,861	40,300
	79,501	58,083
	$991,957	$723,939

Subsequent to October 31, 1980, Daon Development Corporation, through a wholly-owned subsidiary, made an additional investment of $42,500,000 in the share capital of Daon Corporation.

23. Per share calculations

Earnings and cash flow per Common Share have been calculated using the weighted average number of Common Shares outstanding during the year (net of shares held by a subsidiary) after providing for dividends on the outstanding Preference Shares and 75¢ Class A Shares.

The outstanding stock options have no material dilutive effect on the earnings or cash flow per Common Share.

The earnings and cash flow per Common Share for the years ended October 31, 1979, 1978 and 1977 have been restated to give effect to the change in accounting policy as described in Note 24.

24. Change in accounting policy

During 1980, the Company retroactively adopted the policy of deferring gains or losses on the translation of its investment in foreign operations as described in paragraph K of the Summary of Significant Accounting Policies. These gains or losses had formerly been included within the consolidated statement of income.

The accompanying consolidated financial statements have been restated to reflect this policy. The change in policy had no effect on the 1976 and 1975 financial statements. The effects of the restatements on the 1979, 1978 and 1977 financial statements are summarzied below:

	1979	1978	1977
		(in thousands of dollars)	
Retained earnings, beginning of year—			
As previously reported	$45,140	$30,967	$21,485
Adjustment for change in accounting policy for foreign exchange	1,449	211	—
As restated	43,691	30,756	21,485
Net income—			
As previously reported	43,835	16,720	10,551
Adjustment for change in accounting policy for foreign exchange	1,632	1,238	211
As restated	42,203	15,482	10,340
	85,894	46,238	31,825
Dividends and other deductions	5,941	2,547	1,069
Retained earnings, end of year, as restated	$79,953	$43,691	$30,756

25. Related party transactions

The following is a summary of significant transactions between the Company, its directors and officers and other related parties, all of which took place at the then existing market value.

(a) Pursuant to construction contracts, the Company paid $9,354,000 during the year ended October 31, 1980, to a construction company controlled by the Chairman of the Board of Directors of the Company.

(b) Directors, officers and employees of the Company purchased 380 units in the Daon Centre Limited Partnership. The Company is the General Partner of the Partnership and retains a 50.11% interest in the Partnership.

(c) On July 31, 1980, the Company sold an 80,000 sq.ft. industrial building in Edmonton to a retired officer of the Company for $2,452,000 in cash.

(d) A director and officer of a subsidiary was formerly a shareholder, director and president of an electrical contracting company. Pursuant to electrical contracts the Company paid $1,296,000 during the year ended October 31, 1980, to this company and another electrical contracting company, which is owned by this officer's family.

(e) During the year, a company, owned by the parents of a director and officer of the Company, was paid $3,183,000 as real estate commissions in respect of the purchase or sale of eleven properties having an aggregate sale or purchase price of $107,175,000 and a further $368,000 in respect of aircraft and helicopter lease payments.

(f) The Company purchased a 292 acre parcel of land in San Bernadino County, California for $6,968,000 from a wholly-owned subsidiary of a U.S. company. A director of the Company is chairman of this company.

(g) Amounts receivable at October 31, 1980, from officers and directors pursuant to stock purchase plans and house mortgage loans are $722,000.

26. Remuneration of directors and senior officers

The aggregate remuneration for the year paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company amounted to $2,291,000 (1979 — $1,848,000)

27. Material subsequent events

Subsequent to October 31, 1980, a partnership, in which the Company had a 99.99% interest, sold 52% of its equity as limited partnership units. The net proceeds of $140,352,000 will be used to discharge interim financing on the development of three regional shopping centres and to fund, in part, the development, construction, initial leasing and interim financing of these centres.

If the total of development costs and issue expenses incurred do not exceed $177,625,000, the Company estimates it will record a pre-tax operating profit (before general and corporate expenses, including interest) of approximately $40,000,000 after the centres are open.

On February 2, 1981, the Company entered into an agreement with McLeod Young Weir Limited, Greenshields Incorporated, Pemberton Securities Limited and Midland Doherty Limited, as underwriters, for the sale of $50,000,000 10¾% Convertible Subordinated Debentures.

28. Comparative figures

Certain 1979 comparative figures have been reclassified to conform with the 1980 presentation.

PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL, RESCISSION AND DAMAGES

Section 60 and 61 of the Securities Act (British Columbia) provide, in effect, that where a security is offered to the public in the course of primary distribution:

(a) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if a copy of the last prospectus relating to such security together with financial statements and reports and summaries of reports, as filed with the Superintendent of Brokers of British Columbia, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the security. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell the security within 60 days of the date of delivery of such written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice; and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security, as of the date of receipt or deemed receipt, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, provided that no action to enforce this right of rescission can be commenced by a purchaser unless the untruth or omission was known or with the exercise of reasonable diligence could have been known to either the company offering the securities or the underwriter or after the expiration of 90 days from the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent, whichever date is the last to occur.

Sections 64 and 65 of The Securities Act (Alberta), sections 71 and 72 of The Securities Act (Saskatchewan) and sections 63 and 64 of The Securities Act (Manitoba) provide, in effect, that where a security is offered to the public in the course of distribution:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent; and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security, as of the date of receipt or deemed receipt, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, provided that no action to enforce this right of rescission can be commenced by a purchaser unless the untruth or omission was known or with the exercise of reasonable diligence could have been known to either the company offering the securities or the underwriter or after the expiration of 90 days from the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent whichever is later.

Sections 70, 126 and 135 of The Securities Act, 1978 (Ontario) provide, in effect, that when a security is offered in the course of a distribution or distribution to the public:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the dealer from whom the purchaser purchased the security not later than midnight on the second business day after the latest prospectus and any amendment to the prospectus offering such security is received or deemed to be received by the purchaser or his agent, and

(b) if a prospectus together with any amendment to the prospectus contains a misrepresentation, a purchaser who purchases a security offered thereby during the period of distribution or distribution to the public shall be deemed to have relied on such misrepresentation if it was a misrepresentation at the time of purchase and, subject to the limitations set forth in the Act,

(1) has the right of action for damages against,

(i) the issuer or a selling security holder on whose behalf the distribution is made,

(ii) each underwriter required to sign the certificate required by section 58 of the Act,

(iii) every director of the issuer at the time the prospectus or amendment was filed,

(iv) every person or company whose consent has been filed pursuant to a requirement of the regulations under the Act but only with respect to reports, opinions or statements made by them, and

(v) every other person or company who signed the prospectus or the amendment,

but no action to enforce the right can be commenced by a purchaser more than the earlier of 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action or three years after the date of the transaction that gave rise to the cause of action, or

(2) where the purchaser purchased the security from a person or company referred to in (i) or (ii) above or from another underwriter of the securities, he may elect to exercise a right of rescission against such person, company or underwriter, in which case he shall have no right of action for damages against such person, company or underwriter, but no action to enforce this right can be commenced by a purchaser more than 180 days after the date of the transaction that gave rise to the cause of action.

Reference is made to the said Acts for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

CERTIFICATES

Company

Dated: February 2, 1981.

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of the Securities Act (British Columbia), by Part 7 of The Securities Act (Alberta), by Part VIII of The Securities Act (Saskatchewan), by Part VII of The Securities Act (Manitoba), by Part XIV of The Securities Act, 1978 (Ontario), by the Securities Act (Quebec), and by section 13 of the Securities Act (New Brunswick) and the respective regulations thereunder.

(Signed) "J. W. Poole"
President and
Chief Executive Officer

(Signed) "G. C. Reifel"
Vice President, Corporate Finance

On behalf of the Board of Directors

(Signed) "R. M. Hungerford"
Director

(Signed) "W. B. Laurie"
Director

Underwriters

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of the Securities Act (British Columbia), by Part 7 of the Securities Act (Alberta), by Part VIII of The Securities Act (Saskatchewan), by Part VII of The Securities Act (Manitoba), by Part XIV of The Securities Act, 1978 (Ontario), by the Securities Act (Quebec), and by section 13 of The Securities Act (New Brunswick) and the respective regulations thereunder.

McLeod Young Weir Limited

By: (Signed) "W. David Wilson"

Greenshields Incorporated	Pemberton Securities Limited	Midland Doherty Limited
By: (Signed) "David J. Keane"	By: (Signed) "F. R. Wright"	By: (Signed) "J. C. Gage"

The following includes the name of every person having an interest directly or indirectly to the extent of not less than 5% in the capital of:

McLeod Young Weir Limited: None;

Greenshields Incorporated: M. B. Deans, B. P. Drummond, M. J. Howe, Peter Kilburn, F. S. Martin, J. B. Newman, J. P. W. Ostiguy, E. D. Scott and B. G. Willis;

Pemberton Securities Limited: W. R. Wyman, V. A. Christie, M. M. Ryan, F. R. Wright, R. M. Thompson, M. V. Leith, T. M. Ohashi, D. N. Alexander, M. B. McManus and J. G. Chaston; and

Midland Doherty Limited: D. B. Weldon, P. N. Holtby, J. H. Eliot, D. H. Page, J. R. Barton, I. A. Falconer, M. Gaasenbeek, W. J. O'Connor, Jr., G. F. Ryley and L. E. White.